

Economic Impact Analysis of the Final Perchloroethylene Dry Cleaning Residual Risk Standard

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Office of Air Quality Planning and Standards
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As part of its regulatory support role for Clean Air Act (CAA) programs, the Air Benefits and Costs Group (ABCG) within the Office of Air Quality Planning and Standards (OAQPS) analyzes the small entity and economic impacts of sector-specific and broad national emission reduction strategies. Such analyses are in accordance with statutory requirements (Section 317 of the Clean Air Act, and Small Business Regulatory Enforcement Fairness Act (SBREFA)), and are also designed to provide useful information on the impacts of this proposed standard on directly affected firms and on their consumers. This report provides an economic impact analysis for the dry cleaning residual risk standard as applied to all of the sources affected by this proposal: major source and area source dry cleaners. The area source dry cleaners include co-residential facilities, which are of particular interest in this rulemaking given the proximity of apartment residents to these sources and the risk exposure from perchloroethylene (PCE) emissions they experience.

The economic impact analysis for this rule is a comparison of the annualized compliance costs to the annual revenues for known and potentially affected firms. Cost and revenue data are in 2003 dollar terms. All costs employed in this analysis are annualized using a 7 percent interest rate. The analysis for major source owning firms is a detailed firm-by-firm assessment given that there are only 12 major source dry cleaning facilities owned by 11 firms in the US affected by this rule.¹ The analysis for area source dry cleaners presumes that each affected area source owning firm owns a single dry to dry cleaner. We believe this is a reasonable assumption given data that will be shown later in this report. The analysis also includes calculation of economic impacts to co-residential area sources. The economic impacts focus on existing major and area sources, and is meant to provide a “snapshot” of potential impacts to such sources in the fifteenth year after proposal (the year in which full implementation of this rule will occur). This type of estimate is consistent with the cost analyses upon which this report is based. Economic impacts for new area sources are not estimated since insufficient data are available to calculate such impacts.

Profile of Dry Cleaning Industry

The dry cleaning industry is one that is almost entirely made up of small firms that are highly competitive. Most of these small firms have fewer than five employees. In fact, over half of dry cleaners in California employ two or less full-time employees.² The firms in this industry are pricetakers – they have no influence on the price of their cleaning output. Dry cleaners use

¹ The Agency is aware that two dry cleaners subject to this rule at proposal have either ceased operations or are using a solvent other than PCE.

² California Air Resources Board. California Dry Cleaning Industry Technical Assistance Report. February 2006.

PCE in a dry cleaning machine to clean all types of garments including clothes, gloves, leather garments, blankets, and absorbent materials. There are approximately 28,000 PCE dry cleaning facilities in the United States. Of the 28,000 dry cleaners, 15 of the facilities are major sources, and the remaining are area sources. Major source PCE dry cleaners are those that emit 10 tons or more of PCE per year upon the compliance date of the 1993 NESHAP. The 1993 dry cleaning NESHAP defines this as facilities that purchase more than 2,100 gallons of PCE per year (1,800 gallons per year if the facility uses transfer machines). The 15 major sources use approximately 2% of the total perchloroethylene (PCE) used in the dry cleaning industry. Area sources are typically the common neighborhood commercial dry cleaner. Area sources were divided into large or small in the 1993 NESHAP, with large area sources defined as those facilities that use between 140 to 2,100 gallons of PCE per year (or 140 to 1,800 gallons per year if the facility uses transfer machines). Small area sources use less than 140 gallons per year. Some area sources are collocated in the same building with residences. In the 1993 NESHAP EPA did not specifically discuss these sources, but in this proposal we refer to them as co-residential dry cleaners. A co-residential dry cleaning facility is located in a building in which people reside. Co-residential facilities are located primarily in urban areas.

In general, PCE dry cleaning facilities can be classified into three types: commercial, industrial, and leather. Commercial facilities typically clean household items such as suits, dresses, coats, pants, comforters, curtains, and formalwear. Industrial dry cleaners clean heavily-stained articles such as work gloves, uniforms, mechanics' overalls, mops, and shop rags. Leather cleaners mostly clean household leather products like jackets and other leather clothing. The 12 major sources include seven industrial facilities and five commercial facilities. The five commercial facilities are each the central plant for a chain of retail storefronts. Of the twelve major source facilities, the four top PCE users are industrial facilities cleaning some percentage of leather and heavy work gloves. These four facilities use 65% of the total PCE of all the major sources. We do not expect any new source facilities constructed in the future to be major sources. Based on the low emission rates of current PCE dry cleaning machines and the typical business models used in the industrial and commercial dry cleaning sectors, it is unlikely that any new sources that are constructed will emit PCE at major levels, or that any existing area sources will become major sources due to business growth.

Dry cleaning machines can be classified into two types: transfer and dry-to-dry. Similar to residential washing machines and dryers, transfer machines have a unit for washing/extracting and another unit for drying. Following the wash cycle, PCE-laden articles are manually transferred from the washer/extractor to the dryer. The transfer of wet fabrics is the predominant source of PCE emissions in these systems. Dry-to-dry machines wash, extract, and dry the articles in the same drum in a single machine, so the articles enter and exit the machine dry. Because the transfer step is eliminated, dry-to-dry machines have much lower emissions than transfer machines.

New transfer machines are effectively prohibited at major and area sources due to the 1993 NESHAP requirement that new dry cleaning systems eliminate any emissions of PCE while transferring articles from the washer to the dryer. Therefore, transfer machines are no longer sold. Existing transfer machines are becoming an increasingly smaller segment of the dry

cleaning population as these machines reach the end of their useful lives and are replaced by dry-to-dry machines. There are approximately 200 transfer machines currently being used, all at area sources.

The primary sources of PCE emissions from dry-to-dry machines are the drying cycle and fugitive emissions from the dry cleaning equipment (including equipment used to recycle PCE and dispose of PCE-laden waste). Machines are designed to be either vented or non-vented during the drying cycle. Approximately 200 dry cleaners (or about 1 percent) use vented machines, and the remaining facilities use the lower-polluting, non-vented machines. (The 1993 NESHAP prohibits new dry cleaning machines at major and area sources that vent to the atmosphere while the dry cleaning drum is rotating.) In vented machines, the majority of emissions from the drying cycle are vented outside the building. In non-vented machines, dryer emissions are released when the door is opened to remove garments. Currently, the largest sources of emissions from dry cleaning are from equipment leaks, which come from leaking valves and seals, and the loading and unloading of garments.

In the future, the only major sources that we expect to see are the existing facilities (ERG, 2004). Based on the low emission rates of current PCE dry cleaning machines and the typical business models used in the industrial and commercial dry cleaning sectors, it is unlikely that any new major sources will be constructed or that any existing area sources will become major sources by the addition of new equipment. The typical business models for these facilities are picking up clothes for processing within a couple hundred mile radius of the facility and not across several states, this limits the amount of potential garments facilities can service. Most new dry cleaning machines have fourth generation (dry-to-dry closed loop machines with refrigerated condenser and carbon adsorber) emission controls. A typical new fourth generation machine can clean 800 pounds of garments per gallon of PCE. A new or existing source would need to clean 840 tons of clothes to exceed the major source threshold of 2,100 gallons [$2,100 \text{ gallons} * 800 \text{ lb/gallon} * 1 \text{ ton}/2000 \text{ lb} = 840 \text{ tons}$].

No new commercial facilities are expected to be major sources. New area sources allowed to install third generation machines (dry-to-dry closed loop with refrigerated condenser) under the current requirements of the NESHAP, would need to clean 525 tons of clothes to exceed the major source threshold of 2,100 gallons. This estimate is based on a typical performance of a new third generation machine of 500 pounds per gallon of PCE [$2,100 \text{ gallons} * 500 \text{ lb/gallon} * 1 \text{ ton}/2000 \text{ lb} = 525 \text{ tons}$].

The largest commercial dry cleaning source, Bergmann's Inc., dry cleaned 390 tons of garments in 2001. We do not anticipate that any facilities will clean as much as 525 tons of garments per year. Several dry cleaning chains have thirty to sixty storefronts, but the logistics of the commercial market make it uneconomical to clean clothes from a large network at a single location. They divide up the drop shops to send their clothes to be processed at several plants instead of one large plant. Therefore, it is also unlikely that a new facility in the commercial sector using third or fourth generation machines would exceed the major source threshold. New

and existing commercial dry cleaning sources are and will be area sources.

Economic Impacts to Major Sources

Background

There are 11 parent firms owning the 12 major sources affected by the dry cleaning residual risk standard. Of these firms, six (or more than half) are small according to Small Business Administration (SBA) size standard guidelines. The U.S. Small Business Administration's size standards for small dry cleaning firms is \$4 million in annual revenue for an ultimate parent company (NAICS 812320, dry cleaning and laundry services [except coin-operated]). It is expected that virtually of the firms with affected major source dry cleaners will be found in NAICS 812332 (industrial launderers). For this NAICS code, the SBA size standard is \$12 million in annual revenue for an ultimate parent company. It is expected that virtually of the firms with affected area source dry cleaners will be found in NAICS 812320. Although firm specific data is not available, U.S. Census average firm revenue data suggests almost all of the affected firms could potentially be small. For example, 1997 data shows over 99 percent of firms in SIC 7216 (dry cleaning plants, except rug) may meet this threshold.

For major sources, revenue data could not be found for 4 of the 11 affected firms. The firm with the largest annual revenues among those that had available data is Jim Massey's Cleaners & Laundry with \$16.6 million in revenues in 2003 (the year for the cost data). All of the firms have excellent credit ratings except for White Tower (which had a very good credit rating).

As mentioned earlier, impacts in this analysis are calculated as annualized costs/annual revenues for the affected firms. Annualized costs are estimated according to the equation listed below:

$$CSR = \frac{\sum_i^n TACC}{TR_j} \quad \text{where}$$

TACC = total annual compliance costs,

i = indexes the number of affected plants owned by company j,

n = number of affected plants, and

TRj = total revenue of ultimate parent company j.

We conducted a small entity-level analysis for ultimate parent companies that owns and operates affected units that will be affected by air pollution reduction strategies. This approach uses census data for average firm revenue by employment size for SIC 7216 (dry cleaning plants, except rug cleaning) and NAICS 812320 (dry cleaning and laundry services [except coin-operated]) and engineering cost estimates. Costs include enhanced LDAR, and do account for savings from reduced PCE use.

The final rule requires major source dry cleaners, both existing and new, to implement an enhanced LDAR program and the use of dry-to-dry machines that do not vent to the atmosphere (i.e., closed loop) during any phase of the dry cleaning cycle. As shown in Table 1, the economic impacts are fairly limited to the affected firms. In fact, there are instances of cost savings for these firms according to our analyses. Six firms are expected to have cost savings. No firm is expected to have annualized compliance costs of greater than 1 percent of its sales. In these cases, the savings from reduced PCE usage outweigh the costs from applying controls associated with the rule.

Table 1. Economic Impacts for Major Source Dry Cleaners - Residual Risk Standard^a

| Parent Firms Affected, Individually and by Category | Total Revenues in 2003 for Each Affected Firm ^b | Is the Firm Small? | Total Annualized Costs for the Rule (Enhanced LDAR) ^c | Cost/Sales for Affected Firms ^d |
|---|--|--------------------|--|--|
| Industrial | | | | |
| White Tower Industrial Laundry | 15,000,000 | No | (37,250) | - |
| Libra Industries, Inc. | 10,500,000 | Yes | (62,906) | - |
| Circle Environmental | No revenues found | Yes | (43,816) | - |
| Complete Laundering Services | No revenues found | Yes | (24,666) | - |
| Midwest Industrial Laundry | No revenues found | Yes | (9,424) | - |
| Spic and Span, Inc | 7,500,000 | No | 0 | 0.0 |
| Commercial | | | | |
| Bergmann's, Inc. | 11,500,000 | No | (1,666) | - |
| Jim Massey's Cleaners & Laundry | 16,600,000 | No | (10,643) | - |
| Sam Meyer Formal Wear | 15,000,000 | No | 8,377 | 0.056 |
| Quality Chinese Laundry | No revenues found | Yes | 3,474 | Cannot Be Estimated |
| Peerless Cleaners | 3,800,000 | Yes | 8,409 | 0.22 |

^a Values in parentheses are negative.

^b Revenues are estimated for 2003 based on application of the GDP price deflator to 1997 Economic Census data. 2003 is the year for which the costs are estimated.

^c Annual costs in the analysis = Annualized capital + MRR labor (where appropriate) + operating cost + PCE savings.

^d A “-“ denoted a negative cost/sales value, which denotes a cost savings from applying the regulatory option. “Cannot Be Estimated” refers to the lack of available revenue data for the firm. We presume that all firms for which no revenue data is available are small firms.

Economic Impacts to Area Sources

Affected Entities

An affected dry cleaning area source has at least one dry cleaning machine (i.e., dry cleaning is performed on-site) and uses PCE. As mentioned above, there are an estimated 27,800 area source dry cleaners in the country (ERG, 2005). 1,300 of these are located at co-residential facilities. Most of these facilities are located in New York State and California. Most of these machines (61 percent) will have refrigerated condensers and carbon adsorbers on them by 2006, the year this rule will be promulgated. Of the remainder, 37 percent are expected to have refrigerated condensers. The final 2 percent of affected dry cleaning machines are transfer or vented machines. These are much older machines whose economic life on average will be at least 13 years old by 2006.

Analysis Results

We made assessments of the economic and financial impacts of the rule using the ratio of compliance costs to the value of sales (cost-to-sales ratio or CSR) using revenues and pollution control expenditures as shown in the equation above. The analysis assessed the burden of the rule by assuming the affected firms absorb all of the control costs, rather than pass them on to consumers in the form of higher prices.

As shown in Table 2, average firm revenue in 1997 ranged from \$187,000 to \$30.9 million for firms in this industry. Although it is limited to the top 50 firms, the latest census data for 2002 provides an average firm revenue estimate of \$13.8 million. Similar sales data by employment ranges is not currently available.

Table 2. Characteristics of Dry cleaning Ultimate Parent Companies in SIC 7216 (NAICS 812320) (Dry cleaning Plants, except Rug Cleaning)

| Variable | 1997 Data | | | | | 2002 Data |
|----------------------------------|---------------|-----------------|-------------------|--------------------|----------------|--------------|
| | <20 Employees | 20-99 Employees | 100-499 Employees | 500 plus Employees | Industry Total | Top 50 Firms |
| Number of Firms | 18,016 | 1,857 | 102 | 4 | 19,979 | 50 |
| Average Number of Establishments | 1 | 2 | 7 | 89 | 1 | 21 |
| Average Firm Revenue (\$million) | \$0.187 | \$0.888 | \$16.161 | \$30.943 | \$0.278 | \$13.750 |

Options Analyzed

For existing area sources (large and small), the rule requires implementation of an enhanced LDAR program and prohibition of the use of existing transfer machines. This requirement and prohibition apply to all types of existing area sources, including co-residential

sources. The use of all existing transfer machines is prohibited two years from the effective date of the final rule by requiring owners and operators to eliminate any PCE emissions from clothing transfer between the washer and dryer.

For new area sources (large and small), the rule would require implementation of an enhanced LDAR program and the use of a non-vented dry-to-dry machine with a RC and CA. These requirements do not apply to new co-residential sources. In addition, the rule would phase-out the use of existing PCE machines in co-residential dry cleaning facilities over a 15 year period beginning in 2005 and ban new PCE machines in such locations.

Enhanced LDAR requires the use of a hand-held halogenated hydrocarbon detector (HHD) for the leak detection of all specified components of a dry cleaner. The capital cost for this option is \$250 – the cost of the HHD. The maintenance costs of a HHD are limited to those costs associated with replacing a sensor in three years. With a 45 minute inspection time assumed, the total labor cost is \$131 per year. The annualized cost of the HHD and sensor replacement in three years, presuming the 7 percent interest rate mentioned earlier in this report and a 10 year HHD life, is $\$36 + 14 = \50 . Therefore, the annualized cost of per affected dry cleaning machine is $\$50 + 131 = \181 (2003\$). It is assumed that enhanced LDAR does not impose additional repair costs because the current NESHAP already requires leak repair during the weekly or biweekly inspections for perceptible leaks.

For facilities with transfer or vented machines, it is necessary for them to buy a new dry cleaning machine since it is technically infeasible to retrofit such machines with secondary controls (NC DENR, 2001). The capital cost of a new machine with secondary controls is \$35,600 based on quotes from multiple vendors. This cost includes installation and reflects the average size machine for area source facilities (40 pounds). The annualized capital cost of a new machine is $35,600 * 0.1098 = \$3,909$, presuming a 7 percent interest rate and 15 year economic life for a new machine. New transfer or vented machines were banned as a result of the dry cleaning NESHAP that became final in 1993. Thus, the only transfer or vented machines in operation today are those that were operating at the time this NESHAP became final. Hence, these machines are at least 12 years old and are approaching the end of their typical useful life (15 years).

Number of Sources Affected

There are 7,400 dry cleaning facilities in the States of California, New York, Rhode Island, and Maine are already required to conduct the equivalent of enhanced LDAR, thus there is no cost to them from meeting this existing area source requirement. Thus, the number of sources affected by this requirement are $27,800 - 7,400 = 20,400$. We estimate that the number of these sources owned by small firms is $0.99 * 20,400 = 20,200$. We base this estimate on Census data mentioned earlier in this report indicating that roughly 99 percent of dry cleaning businesses are small firms.

These 7,400 facilities also require secondary controls for their dry cleaners, so they incur no cost for meeting the final rule. Of the remaining 20,400 sources, 39 percent or 7,900 would need to apply additional control to comply with the final rule. 7,500 of these sources will be able to add secondary control. The 200 sources with transfer machines, however, can not be retrofit with the secondary control and will have to purchase a new machine to meet the rule requirements.

Cost to Sales Analysis

Net annualized costs include the annualized costs such as annualized capital and operating maintenance and the cost savings from the reduction in PCE usage. The total price of PCE is \$16.63 per gallon, based on an estimate of national average price per gallon, an average site cleanup tax, and sales tax and shipping (ERG, 2005).

For the existing area sources, the 20,400 facilities are expected to incur a capital cost of \$250 apiece for the HHD, and a total annualized cost of \$181. The reduction in PCE usage yields a cost savings of \$315 on average per machine, thus leading to a net annualized cost savings of \$132. The net annualized cost (a savings) is estimated at \$-2,700,000. Given the cost savings and minimal capital expenditure, there should be no significant economic impact to small business area sources or other area source owning firms from compliance with the rule.

7,500 affected facilities will have to apply a secondary control. Half of them are expected to be pre-1996 machines that will incur a capital cost of \$12,000 and an annualized cost of $12,000 * 0.1098 = \$1,318$. The other half will be post-1996 machines will incur a capital cost of \$5,500 and an annualized cost of $5,500 * 0.1098 = \$604$. Therefore, the total annualized cost of the rule for the pre-1996 machines will be $3,750 * 1,318 = \$4,943,000$, and $3,750 * 604 = \$2,265,000$ for the post-1996 machines. The 200 transfer and vented machines will each incur on average a capital cost of \$35,600 and an average annualized cost of \$3,909, which leads to a total annualized cost of $200 * 3,909 = \$781,800$. This total annualized cost before reduced PCE usage is \$7,989,800. With reduced PCE usage included from the enhanced LDAR program and the lower PCE consumption associated with the ban on transfer and vented machines, the net annualized cost is \$7,100,000.

Economic impacts are estimated using the cost-to-sales approach listed in section 2 above. An estimate of average firm sales was generated by taking the dry cleaner firm average sales of \$278,000 found in Table 1, an estimate in 1997\$, and escalating it to 2003\$ using the Gross Domestic Product (GDP) price deflator. The calculation is $(\text{GDP } 2003/\text{GDP } 1997) * 278,000$. With $\text{GDP } 2003 \text{ (January)} = 103.568$ and $\text{GDP } 1997 \text{ (January)} = 95.054$, the average estimated sales for dry cleaning firms is $(103.568/95.054) * 278,000 = \$302,900$.

To calculate cost to sales impacts, we use a weighted average annualized cost for firms affected by the rule since different types of machines are being affected. This annualized cost

estimate for the 7,500 that can apply secondary control to meet the requirement of the rule is $(1,318 + 604)/2 = \$961 - 132 = \829 . This estimate reflects the fact that half of the machines that can put on secondary control have a higher cost for control than the other half. Hence, the annualized cost per firm is the arithmetic average of the costs for each half. The \$132 that is subtracted from this average annualized cost per firm reflects the cost savings from meeting the rule requirements due to recovery of PCE. The cost to sales estimate on average for the firms that own these dry cleaning machines is $829/302,900 = 0.0027$ or 0.27 percent. For the 200 transfer and venting machines that will require replacement to meet the rule requirements, the cost to sales on average for the firms that own these dry cleaning machines is $3,909/302,900 = 1.29$ percent.

Co-residential Area Sources – Requirements and Impacts

For co-residential area sources, the final rule effectively prohibits new PCE machines in residential buildings by requiring that owners or operators eliminate PCE emissions from dry cleaning systems that are installed after December 21, 2005. This requirement applies to any newly installed dry cleaning system that is located in a building with a residence, regardless of whether the dry cleaning system is a newly fabricated system or one that is relocated from another facility. In addition, the final rule revisions include a “sunset date” for the use of PCE at currently operating co-residential sources: all existing PCE machines in co-residential facilities are prohibited after December 21, 2020. This sunset date allows owners of existing co-residential sources to operate their machines for their maximum estimated useful life, 15 years, assuming they were first installed no later than the date of the proposed rule. We have concluded that it is reasonable to establish the sunset date at that point to not prevent such owners from recouping the cost of their investment in new machines. We also decided not to allow for a later sunset date since on the date of our proposal owners were first placed on notice that we were considering a sunset provision for co-residential sources. This sunset period, during which existing machines will be required to comply with the same revised requirements that apply to other existing area sources, will provide adequate time for source owners and operators to switch to non-PCE equipment or move their PCE equipment to a non-residential location. In the interim before the sunset date, existing co-residential sources are subject to the same requirements that apply to all other existing area sources under the final rule revisions (i.e., enhanced LDAR and elimination of transfer machines).

Another substitution possibility that the Agency has included in its analyses is an estimate of the impacts to co-residential facilities of a ban on new PCE machines. This estimate presumes that dry cleaners who want to continue in that business and desire to buy new dry cleaning machines will purchase machines that use hydrocarbon (typically a petroleum) solvent. Existing PCE machines can continue to operate indefinitely, but these machines can only be replaced by a non-PCE machine. This type of solvent cleaner is becoming increasingly popular as new dry cleaning machine installations. A recent report shows that in the San Francisco Bay Area, 75 percent of new dry cleaning machines use hydrocarbon solvent (Bay Area AQMD,

2005).

The capital and annual costs associated with buying and operating hydrocarbon solvent machines vary based on location. In this analysis, we estimate the impacts for new hydrocarbon solvent machines installed in New York and those installed outside of New York. We make this distinction based on two factors: 1) the large number of co-residential machines in New York that would be affected by this requirement, and 2) the higher costs of installation and operation of these dry cleaners in New York relative to the rest of the U.S. As part of this analysis, we assume that a sprinkler system will be required along with all hydrocarbon solvent dry cleaners in New York, and that 50 percent of all dry cleaners outside of New York will be required along with hydrocarbon solvent dry cleaners. The capital cost for a hydrocarbon dry cleaner incremental to the capital cost of a new PCE machine with secondary controls (i.e., a carbon absorber) is \$25,000; the annualized cost of the cleaner is \$2,690 (based on a 7 percent interest rate and a 15 year economic life). It is expected that a sprinkler system will be required for hydrocarbon solvent dry cleaners in New York if they choose to install such cleaners, and our analysis presumes that all such dry cleaners will need to install a sprinkler system. The capital cost of a sprinkler system is estimated at \$20,000 in New York and at \$15,000 outside of New York. Hydrocarbon solvent dry cleaners in New York only would also incur an additional capital cost expense of \$8,000 because of a special requirement that these machines would need a special Mechanical Equipment Approval. It should be noted that the operating and maintenance costs for hydrocarbon solvent machines is presumed to be identical to those for PCE machines. Table 3 summarizes the number of co-residential facilities affected and the costs of these new dry cleaners for this option that is not a requirement in this proposal:

Table 3 - Costs of New PCE Machine Ban With a Switch to New Hydrocarbon Solvent Cleaner Machines

| Location | Number of Facilities Affected in 5 Years | Capital Cost Per Affected Facility Incremental to New PCE Machine | Fire Protection Cost (Sprinkler System + Additional Certification) | Total Capital Cost Per Affected Facility | Annualized Cost Per Affected Facility |
|--|---|--|---|---|--|
| New York | 100 | \$25,000 | \$28,000 | \$53,000 | \$5,855 |
| Outside New York - Sprinkler System Required | 50 | \$25,000 | \$15,000 | \$40,000 | \$4,427 |
| Outside New York - Sprinkler System Not Required | 50 | \$25,000 | 0 | \$25,000 | \$2,780 |

Economic impacts for this analysis are estimated using the cost-to-sales approach listed in section 2 above. Using the average estimated sales for dry cleaning firms of \$302,900 calculated above, the annualized cost to sales is $\$5,855/302,900 = 1.9$ percent for the affected firms (approximately 100) in New York, $4,427/302,900 = 1.5$ percent for the approximately 50 firms outside of New York that will require a sprinkler system along with a new hydrocarbon solvent machine, and $2,780/302,900 = 0.9$ percent for the approximately 50 firms outside of New York that will not require a sprinkler system along with a new hydrocarbon solvent machine. Hence, the range of small business impacts associated with this option for the affected co-residential area sources is compliance costs of 0.9 to 1.9 percent of sales. The average economic impact for these affected small businesses is compliance costs of $(945,850/200)/302,900 = 1.6$ percent of sales.

It should be noted that the analysis for this substitution possibility may provide an overestimate of economic impacts for dry cleaning firms in New York given that their average revenue is likely to be higher than the national average used here. In addition, the estimate of 50 percent for the number of dry cleaning firms that will need a sprinkler system in order to operate a hydrocarbon solvent machine may be an overestimate, hence leading to an overstatement of the total costs associated with this substitution possibility.

The Agency has also examined an option to regulate co-residential area sources according to the requirements under New York State Dept. of Environmental Conservation Part 232 in the interim before sources replace their PCE machines to comply with the phase-out by December 21, 2020. Under these requirements, all PCE-using co-residential area sources are required to put on enhanced LDAR, RC + CA, and a vapor barrier enclosure. The Agency has estimated that 242 co-residential area sources nationwide will have to put on controls or use other means to meet the requirements of this option. Of these 242, 83 already have secondary controls (i.e., RC + CA) on them. Hence, 159 of these sources will have to apply the full set of secondary controls. All of the 1,007 area sources in New York State already comply with the requirements of Part 232 since this rule went into effect in 2003. Estimates of the costs by number of affected source are available in the table below.

Table 4. Impacts of New York State Part 232 Requirements Along with the Co-residential Phase-Out Area Source Requirements

| Dry Cleaner Machine Type | Number of Affected Facilities/Firms | Total Annualized Costs (2003\$) | Total Annualized Cost per Facility |
|------------------------------------|-------------------------------------|---------------------------------|------------------------------------|
| Transfer* | 2 | N/A | N/A |
| Vented (no sprinkler system) | 1 | \$10,415 | \$10,415 |
| Vented (with a sprinkler system) | 1 | \$8,768 | \$8,768 |
| RC (with no sprinkler system) | 40 | 312,920 | 7,823 |
| RC (with a sprinkler system) | 39 | 240,864 | 6,176 |
| RC + CA (with no sprinkler system) | 80 | 460,240 | 5,753 |
| RC + CA (with a sprinkler system) | 79 | 324,374 | 4,106 |
| Total: | 242 | \$1,357,581 | N/A |

* Transfer machines will be banned for all area sources, including co-residential ones, by another requirement in the rule.

To estimate the economic impacts of this option along with the phase-out requirement for co-residential area sources, we calculated the annualized cost per facility as shown in the far right column of Table 4. Given the average revenue of affected small dry cleaning firms is \$302,900, that this estimate is applicable to small dry cleaning firms owning affected co-residential sources under this option, and that 99 percent of the 242 affected facilities are owned by small firms (or $0.99 * 242 = 240$), the following impacts are estimated:

Small firms with no sprinkler system owning vented machines: $10,415/302,900 = 3.4$ percent cost to sales

Small firms with a sprinkler system owning vented machines with a sprinkler system: $8,768/302,900 = 2.9$ percent cost to sales

Small firms with no sprinkler system owning machines requiring RC : $7,823/302,900 = 2.6$ percent cost to sales

Small firms with a sprinkler system owning machines requiring RC: $6,176/302,900 = 2.0$ percent cost to sales

Small firms with no sprinkler system owning machines requiring RC + CA: $5,753/302,900 = 1.9$ percent cost to sales

Small firms with a sprinkler system owning machines requiring RC + CA: $4,106/302,900 = 1.4$

percent cost to sales

Hence, the range of small business impacts associated with this option for the affected co-residential area sources is compliance costs of 1.4 to 3.4 percent of sales. As seen from the estimates above, 1 firm has compliance costs of more than 3 percent of sales, 81 firms have compliance costs of more than 2 percent of sales, and all 240 firms affected by this option have compliance costs of more than 1 percent of sales. The average economic impact for these affected small businesses is compliance costs of $(1,357,581/240)/302,900 = 1.9$ percent of sales. Based on these impacts relative to the whole dry cleaning source category, the Agency believes a SISNOSE would be likely if we chose this requirement as part of our final rule.

Conclusions of Report

The Agency has concluded that there is not a significant impact to a substantial number of small firms (or SISNOSE) associated with this rule. This conclusion is based on a small entity analysis for firms across the entire dry cleaning source category (major and all area source owning firms). For major sources, with each firm expected to experience cost savings annually, there are no negative economic impacts expected to small firms under this option. Under the rule provision for all existing area sources that are not co-residential, impacts for the affected small or large firms are expected to be costs of less than 1 percent of sales for the great majority of affected firms. Only those firms that will have to replace their current dry cleaning machines (i.e., the firms owning the 200 existing transfer and venting machines) will incur a higher impact (just over 1 percent on average) and some small firms owning co-residential area sources (no more than 200). The number of small firms owning dry cleaners that will incur more than 1 percent of sales is only 1.4 percent of the total number of small firms $[(0.99 * (400 + 150)/27,800) = 0.0014]$, and the transfer and venting machines that must be replaced are near the end of their typical useful life currently and thus will face additional maintenance costs to continue operating these machines or replace them with newer machines in any event. Based on these findings, which includes the requirements for co-residential area sources, the Agency has made a no SISNOSE determination for this rule.

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Addendum - Comparison of 2002 Dry Cleaning Revenue Data from Census with 1997 Data

In this addendum, we compare the average firm revenue data for the dry cleaning industry defined as NAICS 821320 from the 2002 Economic Census with the average firm revenue data from the 1997 Economic Census that is used in this report. We conclude that the dry cleaning small business impact estimates will be less if firm revenue data from the 2002 Economic Census is used in place of revenues based on the 1997 Economic Census.

Table A-1: Comparison of 2002 Dry Cleaning Revenue Data from Census with 1997 Data

| Variable | Unadjusted | Adjusted to 2003\$ To Match Cost Year | Difference Between Adjusted Average Revenue Estimates |
|--|------------|--|---|
| 2002 Average Revenue Per Dry Cleaning Firm from Census | \$328,000 | 333,346 | 30,446 (10%) |
| 1997 Average Revenue Per Dry Cleaning Firm from Census | 278,000 | 302,900 | - |

Notes: The dry cleaning industry is defined as firms in NAICS 812320 (Dry Cleaning Plants, except Rug Cleaning).

Average revenue for dry cleaning firms is taken from the 2002 and 1997 Economic Censuses, respectively. The \$302,900 average firm revenue estimate is the value used in the dry cleaning economic impact analysis. Given that we would use \$333,346 as our revenue estimate using 2002 Economic Census data, our firm revenue basis for our analysis will now be 10% higher. Therefore, the economic impacts should be 10% lower using the newer data.

We use average firm revenue in the small business analysis since this is the only firm revenue data that the Census reports; the Census does not report median revenue for firms for this NAICS code. Median revenue is typically what we use in small business analyses to report firm-

level impacts.

While we do not have median firm revenue data, it is instructive to note that the average revenue for dry cleaning firms with 20 employees or less in the 1997 Economic Census was \$178,000; the average firm revenue for dry cleaning firms with 20 employees or less from the 2002 Econ. Census was \$242,000 (an increase of 36%). More than 90% of firms in this industry are in this employee class according to both Economic Censuses.

We adjust the revenue values to 2003 dollars for that is the year compliance costs are reported in. We adjust the revenues using the Gross Domestic Product (GDP) Deflator price index. The adjustment from 2002 to 2003 is 1.0163, and the adjustment from 1997 to 2003 is 1.09.

We did not use the 2002 Economic Census average firm revenue for the entire dry cleaning industry in the body of this report because this data was not available until early this year.

Table A-2 provides the average annual revenue in 2002 for this dry cleaning NAICS code as prepared by the Census Bureau.

Table A-2. Average Annual Revenue for Drycleaning and Laundry Services (except coin-operated): 2002

| NAICS Code | Employment Size of Firm | Firms (number) | Sales (\$1,000) | Average Annual Revenue (\$1,000) |
|------------|---|----------------|-----------------|----------------------------------|
| 812320 | Drycleaning and laundry services (except coin-operated) | | | |
| | All firms | 23,656 | \$7,761,840 | \$328 |
| | Firms operated for the entire year | 19,293 | \$7,266,878 | \$377 |
| | Fewer than 20 employees | 17,384 | \$4,210,107 | \$242 |
| | 20 to 99 employees | 1,796 | \$2,141,963 | \$1,193 |
| | 100 to 499 employees | 107 | \$714,662 | \$6,679 |
| | 500 employees or more | 6 | \$200,146 | \$33,358 |
| | Firms not operated for the entire year | 4,363 | \$494,962 | \$113 |

Source: U.S. Census Bureau. 2005. "Establishment and Firm Size: 2002." 2002 Economic Census Other Services (Except Public Administration) Subject Series: EC02-81SS-SZ. Washington, DC: Census Bureau. Table 5.

United States
Environmental Protection
Agency

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Standards
Health and Environmental Impacts
Division
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Publication No. EPA
452/R-06-005
July 2006