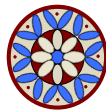




Economic and Competitiveness Impacts of 2025 Priority Bills: SB 7

Prepared by



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SB 7, as amended, McNerney. Employment: automated decision systems

Economic and Competitiveness Impacts

Estimated impacts

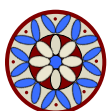
- Each year in California, employees impacted by the use of automated decision systems (ADS) include an estimated:
 - **3,385,856 employees who experience an employment-related decision involving promotion;**
 - **2,384,848 workers who are eligible to receive bonuses or other performance-related compensation**
 - **10,748,750 employees who could request access to their data**
- Even a small appeals rate from these employees over promotions and bonuses and a small data request rate could result in **additional annual HR costs to California businesses of \$523.7 million to \$1.047 billion**
- These estimates are conservative, and so the actual impacts across California would likely be larger
 - These **assume only a 5% appeals rate and a 2% data access request rate**
 - These cost totals **do not include** businesses smaller than 50 employees, some of which use ADS

Primary drivers of impacts

- SB 7 has multiple provisions regarding the use of ADS in employment-related decisions such as **promotions and bonuses/performance-related compensation**.
 - It would require an employer to provide written notice to an employee impacted by an employment-related decision made by an ADS and the means to appeal. It would require an employer to quickly respond to an appeal, using a designated human reviewer to objectively evaluate all evidence
 - SB 7's notice, easy appeal and non-retaliation provisions invite a large number of appeals to decisions each year
- SB 7 also would allow a worker to **access worker data collected or used by an ADS and correct errors** in any input or output data used by or produced by the ADS or used as corroborating evidence by a human reviewer

Competitiveness concerns

- Combined, these compliance requirements and costs will add a significant operational burden to the typical firm and adversely affect its competitiveness

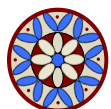


SB 7, as amended, McNerney. Employment: automated decision systems

Approach and Methodology

Approach and methodology

- Estimate the number of ***promotions*** in California that potentially involve the use of ADS
 - Of California's 18,218,220 employees in 2023, ***10,748,750 employees (59.0 percent) worked in businesses with 50 or more employees***—those firms most likely to use ADS in employment-related decisions (Source: [Employment Development Department \(EDD\), California Size of Business—Number of Businesses by Employment Size, and Industry, Table 1, Q4 2023](#))
 - We estimate that of this total, ***approximately 3,385,856 experienced an employment-related decision involving promotion*** in 2023
 - According to an HR survey conducted by Nectar, about 31.5% of people received a promotion within the past twelve months, and another 31.5% of people received a promotion 1 to 2 years prior (Source: [Nectar, The State Of Promotions At Work: How Companies Can Fuel Employee Growth In 2024, Updated February 10, 2025](#))
- Estimate the potential amount of time these companies would spend addressing appeals from the promotion process
 - Given SB 7's notice, easy appeal and non-retaliation provisions, we conservatively assume that 5% of those involved in the promotion process appeal their decision each year
 - Assuming 6 to 12 hours for a company staff member to review each appeal, compile and review the company's supporting documentation, confer with management, issue a determination and send notice, these appeals would consume from 1,015,757 to 2,031,514 hours of staff time
 - Assuming 2,000 hours per year per FTE, ***an additional 508 to 1,016 HR staff would be needed to address appeals related to promotions involving an ADS***

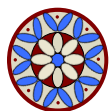


SB 7, as amended, McNerney. Employment: automated decision systems

Approach and Methodology

Approach and methodology (Continued)

- Estimate the number of employees in California that potentially receive ***bonuses or other performance-related compensation***
 - According to EDD, California in 2023 had a total of ***2,981,060 workers in occupations pertaining to management, business and financial operations, and sales*** (Source: [EDD, Occupational Employment and Wage Statistics \(OEWS\) Survey Results, July 2024](#))
 - 1,267,760 workers in Management occupations (excepting Chief Executives and Legislators)
 - 1,210,190 workers in Business and Financial Operations occupations
 - 503,110 workers in Sales and Related occupations (excepting First-Line Supervisors of Retail Sales Workers; First-Line Supervisors of Non-Retail Sales Workers; Cashiers; Gambling Change Persons and Booth Cashiers; Counter and Rental Clerks; Parts Salespersons; and Retail Salespersons)
 - We assume that 80% of this total, or ***approximately 2,384,848 workers, were eligible to receive bonuses or other performance-related compensation***
- Estimate the potential amount of time these companies would spend addressing appeals with respect to bonuses or other performance-related compensation
 - Given SB 7's notice, easy appeal and non-retaliation provisions, we conservatively assume that 5% of those involved in the promotion process appeal their decision each year
 - Assuming 6 to 12 hours for a company staff member to review each appeal, compile and review the company's supporting documentation, confer with management, issue a determination and send notice, these appeals would consume from 715,454 to 1,430,909 hours of staff time
 - Assuming 2,000 hours per year per FTE, ***an additional 358 to 715 HR staff would be needed to address appeals related to bonuses or other performance-related compensation involving an ADS***



SB 7, as amended, McNerney. Employment: automated decision systems

Approach and Methodology

Approach and methodology (Continued)

- Estimate the number of **requests to access ADS related data by employees** in California
 - Of California's 18,218,220 employees in 2023, **10,748,750 employees (59.0 percent) worked in businesses with 50 or more employees**—those firms most likely to use ADS in HR-related processes including employment decisions (Source: [Employment Development Department \(EDD\), California Size of Business—Number of Businesses by Employment Size, and Industry, Table 1, Q4 2023](#))
 - We assume that each year 2% of this total, or **approximately 214,975 employees, would request to access worker data collected or used by an ADS and correct errors** in any input or output data used by or produced by the ADS
- Estimate the potential amount of time these companies would spend addressing access and corrections requests
 - The information required to satisfy employee access requests is extensive, involving the collection of:
 - Personnel information; employment details; job details; salary data; performance data; employee survey data and feedback; COVID-19-related personal medical information (e.g., vaccine status, test results, temperature checks); and personal information (e.g., sexual orientation, disability status, ethnicity)
 - Based on a Gartner study from 2019, many organizations cite the statistic that **the average administrative cost per data subject request is roughly \$1,524, although it could be much higher** depending on the complexity of the organization (Example source: [Secureframe, 110+ Data Privacy Statistics: The Facts You Need To Know In 2025, January 1, 2025](#))
 - Assuming 12 to 24 hours for company staff to compile data for each request and address any needed corrections, these requests would consume from 2,579,700 to 5,159,400 hours of staff time
 - Assuming 2,000 hours per year per FTE, **an additional 1,290 to 2,580 HR staff would be needed to address data access requests**



SB 7, as amended, McNerney. Employment: automated decision systems

Approach and Methodology

Approach and methodology (Continued)

- Estimate the cost of addressing the appeals for promotions, the appeals for bonuses or other performance-related compensation, and the requests for data access and corrections
 - A total of 2,155 to 4,311 new HR staff would be needed to handle these responsibilities
 - EDD reports that ***the mean annual wage of a Human Resources Manager was \$186,896 in 2024.*** Adjusting for benefits of 30%, this means that each new HR staff would cost \$242,965 annually (Source: [Employment Development Department, OEWS Employment and Wage Statistics Data Tables, State of California, 2024 1st Quarter](#))
 - Altogether, these specific requirements of SB 7 would cost California companies an estimated \$523,699,840 to \$1,047,399,679 each year

