

1 Adopt 2 Cal. Code Regs., Section 18702.1 to read:

2 **§ 18702.1. Materiality Standard: Financial Interest in a Business Entity.**

3 (a) The reasonably foreseeable financial effect of a governmental decision on an official's
4 financial interest in a business entity is material if any of the following criteria are met:

5 (1) Explicitly Involved. The entity is a named party in, or the subject of, the decision,
6 including any decision in which the entity:

7 (A) Initiates the proceeding by filing an application, claim, appeal, or other request for
8 action concerning the entity with the official's agency;

9 (B) Offers to sell a product or service to the agency;

10 (C) Bids on, or enters into, a contract with the agency, or is identified as a subcontractor
11 on a bid or contract with the agency;

12 (D) Is the named or intended manufacturer or vendor of any products to be purchased by
13 the agency with an aggregate cost of \$1,000 or more in any 12-month period;

14 (E) Applies for a permit, license, grant, tax credit, exception, variance, or other
15 entitlement from the agency;

16 (F) Is the subject of any inspection, action, or proceeding under the regulatory authority
17 of the agency; or

18 (G) Is subject to an action taken by the agency that is directed at the entity.

19 (2) Gross Revenues and Assets or Liabilities. The decision may result in an increase or
20 decrease of the entity's annual gross revenues, or the value of the entity's assets or liabilities, in
21 an amount equal to or more than:

22 (A) \$1,000,000; or

1 (B) Five percent of the entity’s annual gross revenues and the increase or decrease is at
2 least \$10,000.

3 (3) Expenses. The decision may cause the entity to incur or avoid additional expenses or
4 to reduce or eliminate expenses in an amount equal to or more than:

5 (A) \$250,000; or

6 (B) One percent of the entity’s annual gross revenues and the change in expenses is at
7 least \$2,500.

8 (4) Real Property. The official knows or has reason to know that the entity has an interest
9 in real property and:

10 (A) The property is a named party in, or the subject of, the decision under Regulations
11 18701(a) and 18702.2(a)(1) through (6); or

12 (B) There is clear and convincing evidence the decision would have a substantial effect
13 on the property.

14 (b) Exception: Small Shareholder. If the official’s only interest in the entity is an
15 investment interest with a value of \$25,000 or less, and if that investment interest is less than one
16 percent of the entity’s shares, the decision’s effect on the official’s investment interest in the
17 entity is only material under subdivisions (a)(2)-(3) or (a)(4)(B) of this regulation.

18 Note: Authority cited: Section 83112, Government Code. Reference: Sections 87100, 87102.5,
19 87102.6, 87102.8 and 87103, Government Code.