

STATEMENT BY ALICE M. RIVLIN
DIRECTOR, CONGRESSIONAL BUDGET OFFICE

BEFORE THE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

SEPTEMBER 4, 1980

I am pleased to present to this Subcommittee the views of the Congressional Budget Office (CBO) on S. 2691, the State and Local Government Cost Estimate **Act** of 1980. This bill, introduced by Senator **Moynihan**, would require the CBO to prepare estimates of the costs that would be incurred by state and local governments in complying with the provisions of each bill or resolution reported in the Senate or the House of **Representatives**. Such estimates would be submitted along with the estimates of federal costs of reported bills or resolutions that are already required of CBO by Section 403 of the Congressional Budget **Act**.

CBO strongly supports the objective of bringing to the attention of the Congress the anticipated costs to states and localities of carrying out proposed federal programs in instances when such costs are likely to be significant. In some cases, the burden of federal initiatives on state and local **governments** is very heavy, and focusing only on federal costs can be misleading. Because of the number and diversity of state and local **jurisdictions**, however, assembling even reasonably reliable estimates about total state and local costs of proposed legislation can be a difficult and **time-consuming** task.

CBO has two **concerns** about S. 2691 as it is currently drafted. First, if the Congress passes S. 2691, it should be realistic about the additional work involved and should provide CBO with the staff resources needed to develop reliable estimates of state and local costs. Second, it would be wise to make clear that new cost estimating resources are to be concentrated on major bills that impose significant burdens on state and local governments; **CBO's** efforts should not be dissipated in the technically demanding work of estimating impacts of small magnitude or narrow scope.

The rest of my statement discusses the feasibility of preparing state and local cost estimates and the expected cost to CBO of undertaking this **responsibility**. It also offers two observations based on our experience with federal **cost estimates**.

FEASIBILITY CONSIDERATIONS

State/Local **Impact** Estimates Are Costly to Prepare. The diversity of state and local governments--in terms of **their** structure, **responsibilities**, and fiscal **conditions**--means that the effects of proposed federal legislation will vary widely among **jurisdictions**. It would therefore not be **feasible for** CBO to undertake thorough **state-by-state**

analyses; the requirements for data would be too large and the analysis too **time-consuming**. It would be possible, **however**, to prepare reasonable **approximations** of the costs to the state/local sector as a **whole**, using estimates of average impacts on various categories of **jurisdictions**.

In order to get as clear as possible an idea of the resources CBO would need to prepare state/local estimates, we undertook a state/local impact estimate for **H.R.** 5482, a bill that would set **minimum** federal standards for state workers' compensation programs. The bill contains more than 30 provisions that would affect state **workers'** compensation costs. Each state is currently in compliance with some of the provisions in the bill; various states, however, comply with different **combinations** of these provisions. Analysis of cost impacts is further complicated by the fact that estimates of costs for many provisions in the bill are dependent on the estimates of cost effects of other provisions. Thus, a detailed **state-by-state** analysis of the cost impacts would have entailed producing a matrix of the compliance with the **30-plus** provisions in all 50 states.

To simplify the process, our analysts focused instead on 11 states that were representative of the diversity of workers' compensation plans and that accounted for more than

half of the bill's likely aggregate costs. The analysis of this sample of states enabled us to produce an estimate of aggregate costs to state governments, and to private insurers and individuals as well. Even with this simplified **procedure**, the estimate still required considerable **resources--**in this instance, about 18 weeks of staff **analysts' time.**

An Independent Capability Would Be Necessary. **Our** experience with the estimate for H.R. 5482 leads us to conclude that, while state and local **governments** are likely to be helpful in preparing these estimates, CBO will still need to develop its own, independent estimating capability. We cannot expect the states or localities to prepare these estimates, or to provide much assistance in a timely **fashion.**

We attempted to enlist the aid of state budget offices in estimating the costs to their states of implementing H.R. 5482. Of the three states specifically requested to prepare estimates, only **Ohio's** budget office was able to cooperate. Estimates for three additional states were prepared for us by the National Council on Compensation Insurance (**NCCI**), the primary costing agency for many state compensation boards. To the extent such estimates from

other sources are available, they are indeed **valuable**. **Nonetheless**, CBO would need its own capability to examine **them** for **completeness** and accuracy, in order to ensure the Congress of reliable information. In most instances, the shortness of the time available for preparing the estimates would mean that CBO would have to prepare the estimates on its **own**.

Additional Resources Would Be Required. Last **December**, at the request of the House Budget Committee, CBO prepared a cost estimate for H.R. 3697, the House's companion bill to S. 2691. At that time, we assumed that between 10 and 15 percent of all bills could have cost impacts of significant magnitude on state and local governments. In the light of further examination, this estimate continues to seem a reasonable one. For a task of this magnitude, we therefore estimate that the additional personnel and **data-gathering** and data-processing resources needed would cost roughly \$800,000 (at fiscal year 1980 cost **levels**). (I have attached our original cost estimate to my statement.)

ADDITIONAL OBSERVATIONS

Regulatory Impacts Are Often Impossible To Estimate. **Unfortunately**, although federal regulations often turn out to be extremely costly to state and local governments, the

cost effect of regulations are often impossible to gauge before implementation. **Indeed**, the more regulatory authority delegated in a bill, the less practicable it is to estimate that bill's state/local cost impacts. Such effects would necessarily depend on the nature and scope of Executive Branch **determinations--and** perhaps on judicial interpretations as **well--in** the period following the bill's enactment. A case in point is Section 504 of the Rehabilitation **Act** of 1973, a measure to protect the access of handicapped persons to programs receiving federal financial assistance. Seven years after the **bill's** enactment, its meaning, scope, and costs are still subjects of debate. Even if CBO had been in existence **in** 1973, when the bill was being debated, we would not have been able to furnish a responsible **state/** local cost estimate because the regulations had not yet been formulated. **Thus**, for proposed legislation that delegates considerable regulatory authority to **administering agencies**, CBO's state/local cost estimates would necessarily contain a sizable element of uncertainty.

Some Estimates of Federal Costs **Would** Improve. **The** preparation of state/local impact estimates would, in some cases, help CBO to produce better estimates of costs to the federal government. This is particularly true, for **example**, for legislation affecting such programs as **Medicaid** or Aid

to Families with Dependent Children (AFDC), in which the states share with the federal government the costs of providing the benefits. We have found in the past **that**, to prepare our cost estimates for the federal share, we have had to make assumptions about the behavior of particular states. **Thus**, to the extent that we could consider in closer detail the reactions of state and local **governments** to federal legislative **changes**, our federal cost estimates would improve.

Conclusion

In summary, I believe it is important that the Congress have available assessments of the likely costs to state and local governments of proposed federal legislation. CBO has devoted effort to **understanding** what is involved in making these estimates and how much they would cost to prepare. CBO stands ready, **Mr.** Chairman, to undertake this additional responsibility if we are given the needed resources.



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Alice M. Rivlin
Director

December 6, 1979

The Honorable Elizabeth Holtzman
Chair
Committee on the Budget
Task Force on State and
Local Government
U.S. House of Representatives
214 HOB Annex I
Washington, D.C. 20515

Dear Representative:

Pursuant to request of Representative Mineta and yourself, the Congressional Budget Office has prepared the attached cost estimate for H.R. 3697, the State and Local Government Cost Estimate Act of 1979.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

Alice M. Rivlin
Director

cc: The Honorable Delbert L. Latta
Ranking Minority Member

CONGRESSIONAL BUDGET OFFICE

COST ESTIMATE

December 6, 1979

1. BILL NUMBER: H.R. 3697
2. BILL TITLE: State and Local Government Cost Estimate Act of 1979
3. BILL STATUS:

As introduced and referred to the House Committee on Rules, April 24, 1979.

4. BILL PURPOSE:

This legislation would amend the Congressional Budget Act to require the Congressional Budget Office (CBO) to estimate the cost impact that any reported House or Senate bill or resolution would have on state and local governments. Such estimates would be included with the estimates of federal costs currently being prepared by CBO. The amendment would apply only to bills or resolutions ordered reported after the enactment date of this Act.

5. COST ESTIMATE: (by fiscal years, in millions of dollars)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Estimated Costs	0.1	0.6	0.8	0.8	0.9

The costs of this bill fall within budget function 800.

6. BASIS OF ESTIMATE:

For the purpose of this estimate, it is assumed that this bill will be enacted by March 1980.

Because estimating the state and local budget impacts requires research and data beyond what is required to estimate federal budget impacts, additional staff would be required to perform the functions mandated by this bill. A survey of cost estimates completed by CBO in 1977 indicated that approximately 15 percent of those estimates covered legislation that could have an impact on state and local government expenditures. Applying this figure to the number of analysts in CBO that prepare cost estimates, it is estimated that 6 cost analysts plus clerical support would be required to prepare the additional analyses. Including benefits and overhead, the cost of the additional staff would be \$260,000 at 1980 cost levels. Additionally, development of appropriate expertise for the preparation of these analyses will require special studies and the development and utilization of computerized data bases on state and local government finances and on federal programs affecting states and localities. These studies and the data collection and maintenance are projected to cost approximately \$400,000 per year at 1980 prices. All figures have been adjusted over the five-year period by the CBO projection of increases in federal salaries and in the price index for federal purchases of services.

The small estimated cost for fiscal year 1980 reflects a start-up effort during the latter part of the year, which would continue into early 1981. The first year of full costs would be fiscal year 1982.

7. ESTIMATE COMPARISON: None.
8. PREVIOUS CBO ESTIMATE: None.
9. ESTIMATE PREPARED BY: Kathy Weiss (225-7760)
10. ESTIMATE APPROVED BY:

A handwritten signature in black ink that reads "James Blum". The signature is written in a cursive style with a large, prominent "B" and a long horizontal stroke at the end.

James L. Blum
Assistant Director
for Budget Analysis