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BEFORE THE

COMMITTEE ON RULES  
U. S. HOUSE OF REPRESENTATIVES

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I am pleased to present to this Committee the views of the Congressional Budget Office (CBO) on H. R. 3697, the State and Local Government Cost Estimate Act of 1979. This bill, introduced by Representative **Holtzman**, 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 H. R. 3697 and S. 3087, its companion bill in the Senate. First, if the Congress passes either of these bills, 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. Provisions in the Senate bill define the requirement so that CBO would prepare these estimates for bills having a projected total impact of \$200 million or more on state and local governments, or for bills having exceptional consequences for a particular level of government or region. We support the inclusion of such provisions to focus the CBO's resources.

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. 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 by 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, 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 develop 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. At that time, we estimated that preparing state/local impact estimates for all bills would cost \$800,000 when fully implemented in fiscal year 1982. Last week, we completed a cost estimate for S.3087, as reported by the Senate Government Affairs Committee. As I stated a moment ago, S. 3087 narrows the requirement for impact estimates to bills expected to have significant impact. While this will help reduce the cost of implementation, the preparation of estimates for these bills will still impose major data collection and analysis tasks on CBO. I have attached our cost estimate for S. 3087 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 effects of regulations are often impossible to gauge before implementation. Indeed, the more regulatory authority a bill delegates, 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 made an effort to understand 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.