

Statement of
James L. Blum
Assistant Director
Budget Analysis Division
Congressional Budget Office

before the
Subcommittee on Government Efficiency,
Federalism, and the District of Columbia
Committee on Governmental Affairs
United States Senate

July 30, 1987

NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EDT), on Thursday, July 30, 1987.

Mr. Chairman, I am pleased to have the opportunity to review with you today the experience of the Congressional Budget Office (CBO) in implementing the State and Local Government Cost Estimate Act of 1981. The authorization for CBO to prepare state and local cost estimates, or fiscal notes as they are commonly called at the state level, expires on September 30, 1987. We welcome your efforts to extend this authorization for another five years or even to make it *a* permanent addition to our responsibilities. Although the fiscal notes have had only limited impact on legislation during the past five years, we believe their preparation is a **useful** process and should be continued.

STATE AND LOCAL GOVERNMENT COST ESTIMATE ACT OF 1981

The State and Local Cost Estimate Government Act, enacted in December 1981, directs the CBO to prepare estimates of the cost that state and local governments would incur in carrying out or complying with legislation that is reported in the House or the Senate. These cost estimates may be limited to bills that, in the judgment of CBO, are likely to result in an aggregate annual cost to state and local governments of at least \$200 million, or are likely to have exceptional fiscal consequences for a geographic region or a particular level of government.

The cost estimates are an extension of CBO's responsibilities under section 403 of the Congressional Budget Act to estimate the federal budget costs of legislation reported from committees. This new costing requirement took effect on October 1, 1982, and CBO's first **state-local** cost

estimate was prepared in November 1982. Since then, we have prepared over 2,000 bill cost estimates that included a statement of potential state and local government costs from the enactment of federal legislation.

It might be useful at this point to present some statistics on our state-local fiscal notes. Table 1 summarizes our experience during the 98th and 99th Congresses. We have prepared on average close to 600 state and local bill cost estimates each year, most of which--90 percent--were judged to have no cost impact. Only 10 percent were estimated to have some impact,

TABLE 1. CBO'S EXPERIENCE WITH STATE AND LOCAL COST ESTIMATES, 1983-1986

	1983	1984	1985	1986	Total
Total Federal Cost Estimates	593	661	591	627	2,472
State and Local Cost Estimates	573	641	533	585	2,332
State and Local Estimates Showing Costs or Savings	77	57	45	46	225
Percent of state and local estimates	13.4	8.9	8.4	7.9	9.6
State and Local Estimates Showing Impact of \$200 Million or More	24	6	14	8	52
Percent of state and local estimates	4.2	0.9	2.6	1.4	2.2

SOURCE: Congressional Budget Office.

NOTE: The same legislative proposal may have more than one cost estimate prepared for different versions and for different Houses.

and of these, about one out of every four would have had a cost impact exceeding \$200 million a year. While the overall number of bills having a state and local cost impact has been smaller than we anticipated, we have spent considerable staff effort in preparing state-local fiscal notes--on the order of two to four person years each year.

CBO'S PREPARATION OF FISCAL NOTES

We have integrated the preparation of state-local fiscal notes into our federal cost estimating work. Each cost analyst, who specializes in a particular functional area, has the responsibility of preparing both the federal and the state-local cost impact of a legislative proposal. Occasionally, we assign two analysts to a proposal, with one concentrating on the federal budget costs and the other on state-local costs. Each cost estimate report contains a statement on federal costs and on state and local government costs.

In preparing our federal cost estimates, we have interpreted costs to be the direct budgetary costs or savings that state and local governments would incur as a result of the reported legislation. We do not try to estimate potential second-order effects of legislation, such as possible effects on state tax revenues as a result of a bill's impact on the economy. We also generally do not try to estimate the cost of paperwork or administrative costs of carrying out legislation if these could be absorbed within existing budgetary resources. Our estimates are presented as an aggregate cost of all state and local governments and not for individual

jurisdictions. Our intent is to provide the Congress with a ballpark **figure** of the potential impact on state and local government budgets. Sometimes this cost is presented in terms of a range of possible impacts, and sometimes we are unable to estimate even a range because of the uncertainties involved in implementing the legislation.

We do not use a standard cost methodology, a single data base, or a single network of state and local government contacts for two reasons. First, legislation having an impact on state and local governments spans a wide range of program areas, so that each bill presents a unique analytic problem that must be solved separately. Second, we have very little time in which to prepare our cost estimates. We normally have only three to four days between the time a bill is reported and when the committee report is filed for printing. Sometimes we are allowed as little as one day in which to prepare our bill cost estimates. The first priority in our bill costing work is to estimate the impact on federal costs. If we cannot complete a state and local cost estimate in time to include it in the committee report, we try to supply one later.

We generally rely on national data sources and federal agencies for the information to calculate cost impacts. Since most bills are amendments to current laws, there are usually people in the federal agencies who have programmatic expertise in the area and can provide useful information or can tell us whom to call at the **state** and local level. We often contact a number of state and local government officials by telephone for infor-

mation, and occasionally one or more of the national state and local government organizations can be of assistance.

From the beginning, we adopted the policy of preparing state-local fiscal notes for all bills reported in the House and Senate, whenever possible, and not just those limited to annual costs in excess of \$200 million or those having exceptional fiscal consequences for a particular geographic area. To determine, even tentatively, whether or not a bill would meet these criteria, we would have to do much of the required analytic work to complete a cost estimate. Therefore, we decided that we should go ahead and complete our analysis for as many bills as possible and provide this information to the Congress as a routine matter.

IMPACT OF CBO FISCAL NOTES

In contrast to our federal cost estimates, the CBO state-local fiscal notes do not appear to have had much impact on the legislative process. In fact, we have not experienced much interest in them. We are rarely, for example, asked any questions about them, and should we fail to complete one in time to include it in a **committee's** report, we are not usually pressured by the committee to provide one later. **My** impression is that not even the public interest groups pay much attention to our state-local fiscal notes, although they enthusiastically supported the enactment of the State and Local Government Cost Estimate Act.

In a few instances, however, our state-local cost estimates have played a key role in shaping federal legislation. One of these instances

involved the recent immigration reform legislation, for which we did considerable analytic work on the cost impact for state and local governments. This work served as the basis for the provision in the legislation to provide up to \$4 billion in federal funds to cover the added state-local costs of the immigration legalization program.

Another instance involved some amendments to the Fair Labor Standards Act resulting from the Supreme Court decision on Garcia v. San Antonio Metropolitan Transit Authority. The issue involved a potential \$0.5 billion to \$1.5 billion impact of the decision on state and local governments for the cost of overtime compensation. In this case, the House Education and Labor Committee requested CBO to estimate this cost before it decided what legislative remedy to pursue.

As might be expected, reaction to large state-local cost estimates has been varied. A CBO state-local cost estimate for the provisions in the Education of the Handicapped Amendments of 1986 led to their amendment in the final legislation to reduce the potential costs to state governments. This is the only instance I can point to where a CBO state-local fiscal note had such a deterring effect. On the other hand, in the case of the Safe Drinking Water Act where we estimated a potential \$2.5 billion to \$3.5 billion in capital costs and \$200 million to \$300 million in annual operating costs, the design of the legislation was **unaffected**.

Nevertheless, we believe that our state-local fiscal notes are a useful contribution to the legislative process. In my opinion, given our time and

data constraints, we have provided relatively good information in an objective and unbiased manner. The requirement to do state and local fiscal impacts has probably improved our federal cost estimates by giving us better data and a clearer sense of how legislation would be implemented. Therefore, we strongly support extending the authorization for these cost estimates for another **five** years or even **indefinitely**.

POSSIBLE CHANGES IN THE FISCAL NOTE PROCESS

You asked, Mr. Chairman, for our thoughts on possible changes to our state-local fiscal note responsibilities, such as preparing the estimates at the subcommittee level and for Floor amendments, lowering the threshold criteria, sharing the fiscal notes with public interest groups, and preparing an annual report. In general, we believe the legislation is fine as it is and no changes are needed at the present time.

Although CBO is only required to prepare cost estimates for bills reported from full committees, we are often asked to prepare cost estimates for bills at other stages of the legislative process. For example, many committees want to know the cost implications of bills before they proceed to the reporting stage. In these cases, we also include the potential **state-local** cost impact in our bill cost estimates if this is significant. So where a request is made, we do respond. But to mandate that we prepare **state-local** fiscal notes at the subcommittee level or for floor amendments would go beyond our responsibilities for federal cost estimates and would have a definite impact on our workload and ability to provide the Congress with federal budgeting information.

Lowering the significant bill threshold criteria for our state-local fiscal notes, however, would not have any **significant effect** on our present cost estimating work. As I have indicated earlier in my statement, we have chosen to ignore the \$200 million threshold so that lowering it would make no **difference** to us.

We could easily share our fiscal notes with the state-local interest groups, but I do not think that sharing this information would substitute for these organizations becoming more active in tracking legislation of interest to them. The primary role of CBO is to serve the information needs of the Congress and not those of particular interest groups.

Public interest groups could probably use better means for legislative tracking than relying on CBO cost estimates. For example, the organizations representing state and local governments could use their own resources to establish a central clearinghouse to track legislation that would affect them. It also could monitor the issuance of new federal regulations that sometimes have significant cost consequences for state and local governments. This clearinghouse could prepare its own annual report on the state-local costs of federal legislation, based on CBO fiscal notes as well as its own sources of information. Such a clearinghouse eventually might be very useful to us in getting state-local cost information for our fiscal notes. It certainly would facilitate the distribution of our cost estimates to interested groups.