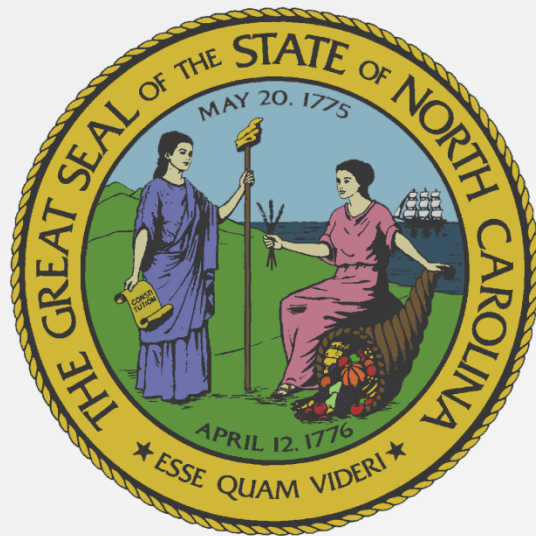




Office of State Budget and Management  
*Balancing Needs - Improving Government*



# Fiscal Note Training

Office of State  
Budget and Management



# Agenda

## I. Intro to Fiscal Notes

1. E.O. 70 and S781

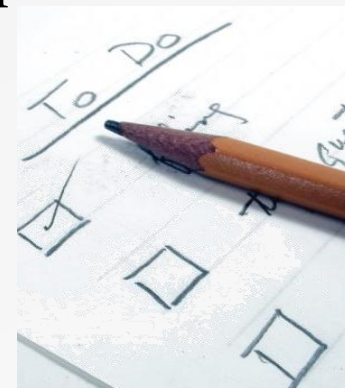
## II. Fiscal Note Process

1. Review and Approval before Publication
2. Federally Required Rules
3. Certification before Adoption

## III. Tips for Fiscal Note Approval

## IV. Examples

## V. Fiscal Note Takeaways and Resources





# Agenda

## I. Intro to Fiscal Notes

- E.O. 70 and S781

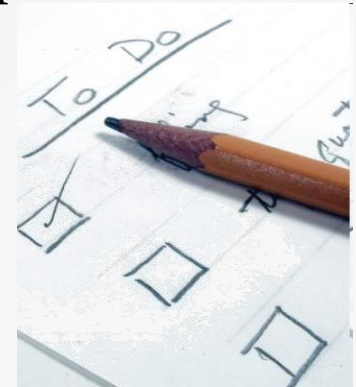
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- Review and Approval before Publication
- Certification of Federal Requirement
- Certification before Adoption

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# Why Do A Fiscal Note?

## Fiscal notes:

- Help **analyze policy** and identify **realistic consequences**
  - Estimate impact of proposed rule change
  - Distributional effects (winners and losers)
  - Unintended consequences
- **Inform** decision makers and public
  - Translate rule language into policy implementation
  - Provide information for planning purposes
    - Published to OSBM website
- **Are required** by Administrative Procedure Act (APA)
  - § 150B-21.4. Fiscal notes on rules



# Definitions

- **Rule Change** is the package of permanent individual rules that the agency is requesting to publish together and that constitutes the new policy the agency is proposing to implement.
- **Baseline** is the best assessment of the way the world would look absent the proposed rule change (counterfactual)
  - **Includes** current statutes/rules
  - **Excludes** existing policy, “already compliant” argument



# Definitions (cont'd)

- **Opportunity cost** is the value of the best alternative foregone as a result of choosing the regulatory action
  - The use of any resource, including a person's time, has an opportunity cost
    - **Example:**
      - What is the opportunity cost of this training session?
      - What is the opportunity cost of this training room?



## Definitions (cont'd)

- **NPV** stands for **Net Present Value** and it is a way of taking into account the time value of money and of comparing benefits to costs (or comparing different alternatives), which may not occur in the same timeframe.
- **Discounting** is a way of bringing costs and benefits occurring at different times to a common time period.
  - **Example:**
    - Cost = \$ 10 in Year 1, Benefit = \$100 in Year 2
    - Discount rate is 7%
    - NPV of Cost in Year 0 =  $\$10/(1+.07)^1 = \$9.3$
    - NPV of Benefit in Year 0 =  $\$100/(1+.07)^2 = \$87.3$
    - Net Effect in Year 0 terms =  $\$87.3 - \$9.3 = \$78$



# E.O. 70 and S781

- OSBM is making changes to its **review and approval process for fiscal notes** due to:
  - **Executive Order No. 70** on Rules Modification and Improvement
    - Regulatory principles
    - Review of new rules
  - **S781** amendments to G.S. 150B
    - Certification of principles
    - Federally required rules
    - Substantial economic impact rules (definition and assessment)
    - Alternatives assessment
    - Review of local government impact rules



# Agenda

## I. Intro to Fiscal Notes

- E.O. 70 and S781

## II. Fiscal Note process

- **Review and Approval before Publication**
- **Federally Required Rules**
- **Certification before Adoption**

## III. Tips for Fiscal Note Approval

## IV. Excel Tips

## V. Example

## VI. Fiscal Note Takeaways and Resources





# Which Rules Require OSBM Approval or Review?

## CABINET

Approval before Publication  
of ALL RULES

De minimis  
Little to no impact

### Non-substantial Impact

- A. Require **expenditure/distribution** of State funds subject to State Budget Act (new staff, new cost, opportunity cost, federal funds distribution; not revenue)
- B. Affect **expenditures** or **revenues** of any local government

### Substantial Economic Impact

Aggregate annual impact to all persons (costs + benefits) of **>\$500K**  
Unless **identical to federal regulation**

## NON-CABINET

Approval before Publication

### State Impact

Require **expenditure** or **distribution** of funds subject to State Budget Act

- New staff, new cost, opportunity cost
- Distribution of federal funds
- Not revenues

### Substantial Economic Impact

Aggregate annual impact to all persons (costs + benefits) of **>\$500K**  
Unless **identical to federal regulation**

Review before Publication

### Local Impact

Affect **expenditures** or **revenues** of any local government



# What do we send to OSBM?

## 1. De minimis

**CABINET**

**60 Days before Publication**

- General Information
  - Rule title and NCAC citation
  - Agency name and contact
  - Rulemaking authority
  - Brief impact statement
- Rule Summary
  - Description of Rule
  - Purpose of Rule Change
- Impact Description on Affected Persons
  - State gov't
  - Local gov't
  - Federal gov't
  - Private entities
- Proposed Rule Text
- Certificate of Federal Requirement

**NON-CABINET**

**No Action Necessary**



# What do we send to OSBM? (cont'd)

## 2. A. Non-Substantial State Impact

**CABINET**

**60 Days before Publication**

**NON-CABINET**

**Before Publication**

- General Information
  - + **Sources of funding for state cost**
- Rule Summary
- Economic Analysis
  - **Cost estimates by affected person**
  - **Benefit estimates by affected person**
- Proposed Rule Text
- Certificate of Federal Requirement



# What do we send to OSBM? (cont'd)

## 2. B. Non-Substantial Local Impact

**CABINET**

**NON-CABINET**

**60 Days before Publication**

**60 Days Before Publication**

- General Information
- Rule Summary
- Economic Analysis
  - Cost estimates by affected person
  - Benefit estimates by affected person
- Proposed Rule Text
- Certificate of Federal Requirement



# What do we send to OSBM? (cont'd)

## 3. Substantial Economic Impact

CABINET

NON-CABINET

60 Days before Publication

Before Publication

- General Information
- Rule Summary
- Economic Analysis
  - + **Time Value of Money**
  - + **Risk Analysis**
  - + **Alternatives (at least 2)**
- Proposed Rule Text
- Certificate of Federal Requirement

- **Time value of Money** – Determine **net present value (NPV)** of costs and benefits by using **7% discount rate**
- **Risk Analysis** – Analyze possible **events that may jeopardize estimated benefits or costs** and **changes in assumptions made**
- **Policy Alternatives** – Perform **sensitivity analysis** for a continuum of alternatives



# No More OSBM Form 4

- **OSBM Form 4** no longer exists
- Allows **flexibility** in level of analysis
- Smaller rules require very little work
  - **Example:** See DHHS/ DPH fiscal note for the Reporting Communicable Diseases rule on OSBM website
- Larger rules require more work
  - **Example:** See DENR/ DWQ fiscal note for the Falls Lake rules on OSBM website



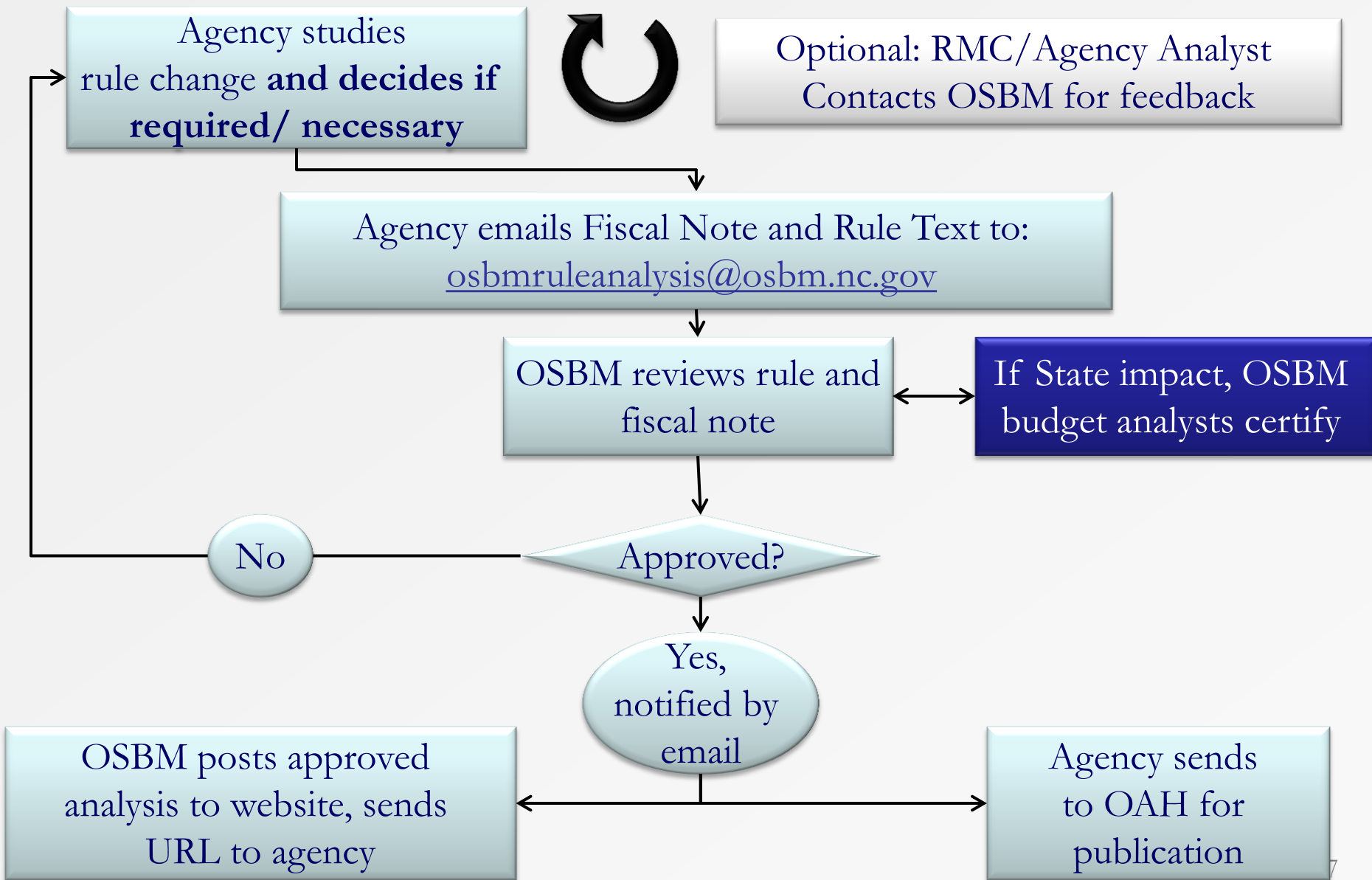
# Approval Process

## OSBM

- Determines if a fiscal note **correctly identifies and assesses** the impacts, costs and benefits, on all affected persons
- Certifies that “the [state government] **funds** that would be required by the proposed rule change **are available,**” as required in G.S. 150B-21.4(a)
  - Rule changes **may not require** an expenditure of more money than is budgeted
- Checks that so far the agency has **adhered to principles** in G.S. 150B-19.1 and, if required, E.O. 70



# Approval Process (cont'd)





# Federally Required Rules

Send to OSBM before Publication:

- **Certificate of federal requirement**
  - Federal law/regulation that requires rule or places conditions on the receipt of federal funds
  - If applicable, reason why all or part of rule is not required by or exceeds federal law

- **Fiscal Note**

**CABINET**

**All** federally required rules  
(regardless of impact or  
lack thereof)

**NON-CABINET**

Only **State** or **Local**  
(Err on the side of writing a  
fiscal note)

- Baseline: federal rule if funding depends on adoption
- Easier economic analysis: scale the federal analysis to NC



# Certification before Adoption

- What

**CABINET**

Certify for **All rules**

- Adherence to E.O. 70 and G.S. 150B-19.1 Principles
- Validity of Fiscal Note

**NON-CABINET**

Certify for **State rules** only  
adherence to G.S. 150B-19.1  
Principles

- When

- After Public Comment Period, but **before Adoption**

- Why

- Ensure the conditions under which the rule and fiscal note were approved for publication have not changed



# Executive Order No. 70

- **Regulatory Principles** in Section 2
  - Adopt rules if **required** or **necessary** to serve public interest
  - Do not impose **undue burden**
  - Write rules **clearly**
  - Base rule on **sounds, available information** and **cite sources**
  - Achieve objective in **cost-effective** and **timely manner**
- **Additional Requirements**
  - Quantify costs and benefits to greatest extent possible
  - Identify and assess alternatives
  - Encourage public comment and ensure access to information
  - Coordinate rule action with other agencies for overlap
  - Update fiscal note for significant changes before adoption

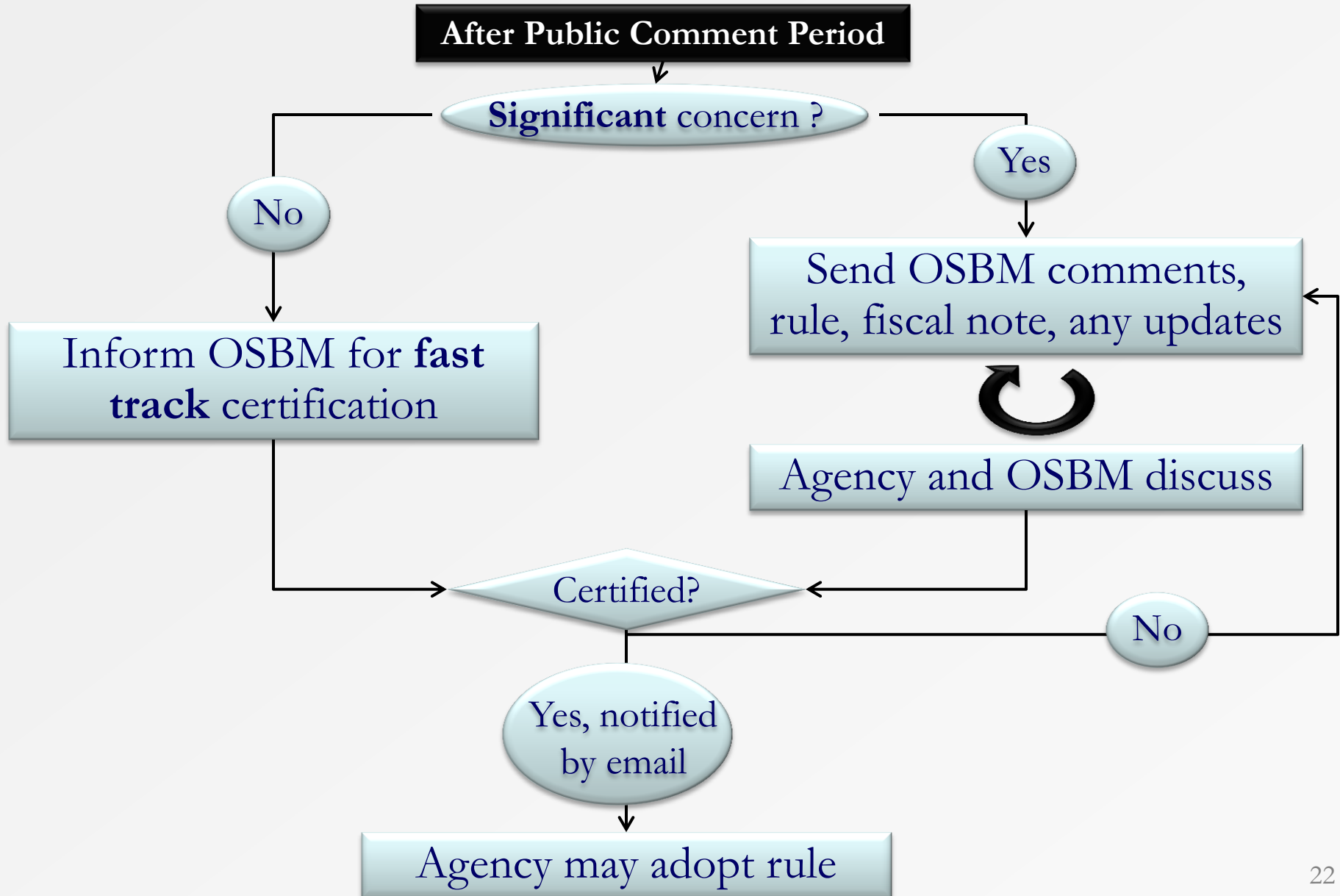


# S.L. 2011-398 (S781)

- **Principles in G.S. 150B-19.1**
  - Be expressly authorized and serve the public interest
  - Seek to reduce burden
  - Be clear, unambiguous, and necessary
  - Consider cumulative effect of rules
  - Consider sound, reasonably available information
  - Achieve rule objective in cost-effective and timely manner



# Certification before Adoption Process





# Overview OSBM Process

## CABINET

- **Approval before publication in Register**
  - De minimis impact rules
  - Non-substantial State and/or local government impact
  - Substantial economic impact
- **Certification before adoption** of adhering to **E.O. 70, S781** principles and of fiscal note validity
  - All rules

## NON-CABINET

- **Approval before publication in Register**
  - Non-substantial State government impact rules
  - Substantial economic impact
- **Review before publication in Register**
  - Non-substantial local government impact rules
- **Certification before adoption** of adhering to **S781** principles
  - State gov't impact rules



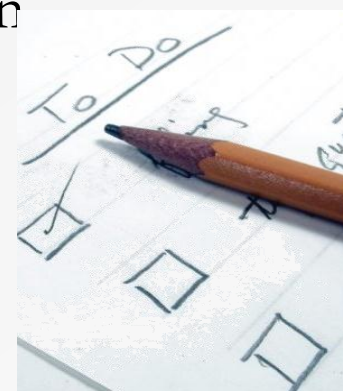
# Agenda

## I. Intro to Fiscal Notes

- E.O. 70 and S781

## II. Fiscal Note process

- **Review** and Approval before Publication
- Federally Required Rules
- Certification before Adoption



## III. **Tips for Fiscal Note Approval**

## IV. Examples

## V. Fiscal Note Takeaways and Resources



# Response Time Expectations

## 1. De Minimis Rule Change

- Fast Track Approval generally in a few days
- **May ask for major revision** if there is an impact

## 2. Non-substantial State Impact Rule Change

**CABINET**

Submit at least **60 days**  
prior to publication

**NON- CABINET**

No statutory deadline

## 3. Non-substantial Local Impact Rule Change

- Submit at least **60 days** prior to publication

## 4. Substantial Rule Change

- OSBM must review within **14 days**
- Clock starts again if revised version is submitted



# Tips for Faster Approvals

- **Involve OSBM early!**
- Impact is the difference between the world with the rule change and the Baseline (world without the rule)
- “Beg, borrow, and steal” prior research
  - Federal agencies (OMB, EPA, others)
  - Other states (VA is useful)
  - Academic journals
- **Make reasonable assumptions** and use sensitivity analysis to understand the impact of those assumptions
- **Quantify costs and benefits** as much as possible



# Rule Summary

## Necessity

- Discuss what is the problem the rule is addressing
- Describe how the rule solves the problem
- Include background information



# Cost Analysis

## Costs

- First-order effects – **direct results** of the policy
- Choose time horizon appropriate for future costs
- Consider each group affected by the rule change
- Include a list of non-monetized costs
- Include opportunity costs
- Include table(s) with costs by affected persons
- Good data is hard to find
  - **Estimate**
  - **Make some assumptions (state what they are!)**
  - **Perform sensitivity analysis**



# Cost Analysis (cont'd)

## Examples of Costs

- Increase government expenditures
  - Transfers to segment of population
  - Investment in equipment, materials, etc.
  - Overhead or administrative expenses
  - Lower revenue
- Private sector loss of business or lower revenue
- Increased compliance cost of regulated parties
- Opportunity cost of
  - Existing staff
  - Existing resources



# Benefit Analysis

## Benefits

- First-order effects – **direct results** of the policy
- Choose time horizon appropriate for future benefits
- Consider each group affected by the rule change
- Include a list of non-monetized benefits
- Consider cost-effectiveness analysis (\$ per life saved)
- Include table(s) with benefits by affected persons
- Good data is **even harder to find**
  - **Estimate**
  - **Make some assumptions (state what they are!)**
  - **Sensitivity analysis**



# Benefit Analysis (cont'd)

## Examples of Benefits

- Decrease government expenditures
- Transfers from government
- Higher revenue for local governments
- Private sector higher revenue or more business
- Decreased compliance cost
- Better health, life expectancy
- Higher earnings
- Value placed on cleaner environment



# Alternatives

## At least 2 Alternative to Substantial Impact Rule

- Consider alternatives **to regulation**
  - Economic instruments: incentives, taxes, tradable permits
  - Performance standards
  - Information disclosure requirements
  - Information campaigns
- Consider alternatives **to proposed text**
  - Different threshold
  - More/less stringent requirement
  - Bigger/smaller regulated community
- Discuss why rule was chosen over the alternatives



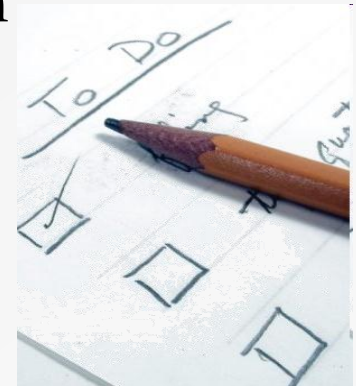
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## III. Tips for Fiscal Note Approval

## IV. Examples

## V. Fiscal Note Takeaways and Resources



# Example 1: Vaccine

- Require 5-10 year olds in NC to get a **new vaccine**
  - State pays for shot for kids in poverty
  - Shot mostly given by clinic workers (not doctors)
- **Affected parties?**
  - NC Children
  - NC Parents
  - Doctors
  - Clinic workers
  - State government



# Example 1: Cost

- NC Kids
  - Potential adverse reactions to the vaccine
- NC Parents
  - **Opportunity cost** of extra trip to the doctor (time)
  - Cost of shot (if not in poverty)
- Doctors
- Clinic workers
  - **Opportunity cost** of time to perform shot
- State government
  - Cost of shot (if in poverty)



# Example 1: Benefit

- NC Kids
  - **Longer, healthier life** from disease prevention
- NC Parents
  - **Saved cost of treatment** of child's illness
- Doctors
  - **Saved time** to care for unhealthy children (can see an extra patient)
- Clinic workers
- State government
  - Saved some other health care costs



# Example 1: Quantify Costs and Benefits

- **Research** available data
  - Cost of time: what is average wage rate?
- Make reasonable **estimates**
  - Vaccine would prevent X% of disease cases (based on clinical tests?)
- Make supportable **assumptions**
- In analysis, **explain** estimates and assumptions
- Possibly quantify health benefits?



## Example 2: College Aid for Foster Children

- Financial aid program to provide **\$3,000 each year to 1,000 incoming college freshmen who are former foster children**
  - All students receive aid for 4 years
  - Some other eligibility requirements
  - For simplicity, only one cohort of 1,000 freshmen
- **\$500,000 per year budgeted for administration, case management, and overhead**



## Example 2: Who Are the Affected Parties?

- Former foster children (**students**) who receive financial aid
- State government (**taxpayers**)
- Federal government?
- Local government?
- Others?



# Example 2: Costs and Benefits to Students

- Costs
  - Opportunity cost of attending college = foregone income from working
    - This can be substantial!
  - More taxes paid on higher earnings
  - Others?
- Benefits
  - Financial aid (cost of tuition saved)
  - Additional lifetime earnings from more education
  - Better health, longer life expectancy
  - Others?



# Example 2: Costs and Benefits to State Gov't

- Costs
  - Financial aid funds
  - Administration / Overhead
  - Others?
- Benefits
  - Less use of state programs (TANF, Medicare) by former foster children (also federal, local?)
  - Higher tax receipts (also federal, local?)
  - Others?



## Example 2: Research, Assume, and Compute

- Aid would allow **more students to graduate** than they would otherwise
  - Assume all aid recipients graduate
  - 50% would have dropped out = 500 additional graduates
- **Foregone income** for 500 additional students from attending college instead of working
  - College dropouts and high school graduates will earn \$30,000/year in their 20s
  - \$15,000,000 total lost income for each year in college



## Example 2: Research, Assume, and Compute (cont'd)

- **Additional lifetime earnings** for college graduates over college dropouts
  - Say \$20,000 per graduate for 44 working years
- \$10,000 **less in government programs** used by former foster children college graduates in their lifetime
  - Say \$700 per year in total welfare savings
- \$5,000 **more in taxes paid** by graduate over their lifetime
  - Say \$350 per year in taxes
- **Better health/life expectancy** - hard to quantify



## Example 2: Summary of Costs

Costs (NPV)	Year 1	Year 2*	Year 3*	Year 4*
<b>Students:</b>				
Foregone Income	15,000,000	14,018,692	13,101,581	12,244,468
<b>Students:</b>				
Foregone welfare	700	654	611	571
<b>Students:</b>				
Higher taxes	0	0	0	0
<b>State Gov't:</b>				
Financial Aid	3,000,000	2,803,738	2,620,316	2,448,894
<b>State Gov't:</b>				
Admin Cost	500,000	467,290	436,719	408,149
<b>Total Costs</b>	<b>18,500,700</b>	<b>17,290,374</b>	<b>16,159,228</b>	<b>15,102,082</b>

\* Remember to discount future years:  $NPV = \text{Amount} / (1.07 \wedge \text{years})$ . You can use the NPV function in Excel.



## Example 2: Summary of Benefits

<b>Benefits (NPV)</b>	<b>Year 1</b>	<b>Year 2*</b>	<b>Year 3*</b>	<b>Year 4*</b>
<b>Students:</b>				
Financial aid	3,000,000	2,803,738	2,620,316	2,448,894
<b>Students:</b>				
Higher earnings	0	0	0	0
<b>Students:</b>				
Health/ Life expect.	?	?	?	?
<b>State Gov't:</b>				
Welfare savings	700	654	611	571
<b>State Gov't:</b>				
Higher Taxes	0	0	0	0
<b>Total Benefits</b>	<b>3,000,700</b>	<b>2,804,393</b>	<b>2,620,928</b>	<b>2,449,465</b>

\* Remember to discount future years:  $NPV = \text{Amount} / (1.07 \wedge \text{years})$ . You can use the NPV function in Excel.



## Example 2: Net Social Benefits

Net Benefits (NPV)	Year 1	Year 2*	Year 3*	Year 4*
Total Benefits	3,000,700	2,804,393	2,620,928	2,449,465
Less Total Costs	18,500,700	17,290,374	16,159,228	15,102,082
<b>Net Social Benefits</b>	<b>(15,500,000)</b>	<b>(14,485,981)</b>	<b>(13,538,300)</b>	<b>(12,652,617)</b>

### Note!

- Projecting far into the future and **discounting** can be important
- Benefits may accrue **long after** a program is over.
  - In 2014, the program will stop being a cost to the state government
  - Students will earn **additional earnings** and **pay taxes** from 2014

\* Remember to discount future years:  $NPV = \text{Amount} / (1.07 \wedge \text{years})$ . You can use the NPV function in Excel.



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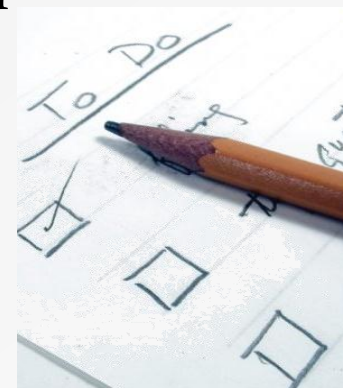
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# Key Takeaways

- Impact analysis helps create better government policies
- Fiscal note generally required if:

## CABINET

1. De minimis impact
2. State gov't impact
3. Local gov't impact
4. Substantial economic impact (>\$500K)

## NON-CABINET

1. State gov't impact
2. Substantial economic impact (>\$500K)
3. For Review: Local gov't impact

- Involve OSBM early to expedite final approval
- Quantify as much as possible
- State assumptions and cite sources
- Include Risk Analysis and at least 2 Policy Alternatives for impact > \$500K



# Resources

## Where to go for help:

- OSBM Rule Analysis website:  
[http://www.osbm.state.nc.us/ncosbm/economic\\_analysis/regulatory\\_analysis.shtml](http://www.osbm.state.nc.us/ncosbm/economic_analysis/regulatory_analysis.shtml)
  - Fiscal Notes for OSBM Approved Rule Changes
  - Fiscal Note Training slides
- OSBM Budget Manual (Chapter 7):  
[http://www.osbm.state.nc.us/files/pdf\\_files/BudgetManual.pdf](http://www.osbm.state.nc.us/files/pdf_files/BudgetManual.pdf)
  - In-depth information on OSBM requirements
- Executive Order No. 70  
<http://www.governor.state.nc.us/newsItems/UploadedFiles/26c9a046-53f8-4e14-a8d3-ed6225db2780.pdf>
- G.S. 150B (19.1, 19.2, 21.4, 21.26)  
<http://www.oah.state.nc.us/150b.pdf>
- Ask me:
  - (919) 807-4740 or [anca.grozav@osbm.nc.gov](mailto:anca.grozav@osbm.nc.gov)