



Fiscal Note Training

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- Why do fiscal notes?
- Which rules require OSBM approval?
- What do I have to submit to OSBM?
- Approval Process
- What is approval?
- Time expectations
- What is in a fiscal note?
- Cost/Benefit Analysis Workshop
- Resources
- Questions?





Why do we have to do fiscal notes?

- **Required** by Administrative Procedure Act (APA)
- **Informs** decision makers
- **Informs** public
 - Published to OSBM website after approval
- Helps think through **consequences** of rule
 - Unintended consequences
 - Distributional effects (winners and losers)





Fiscal notes **required** for rules that:

1. State Impact:

- Require **expenditure** or **distribution** of funds subject to State Budget Act (not revenues)

2. Local Impact:

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

3. Substantial Economic Impact:

- Have an aggregate annual impact (costs plus benefits) of **>\$3M**
- Unless identical to federal regulation

State impact:

- Includes new staff, new activities, and new costs
 - Even if you already have a source of funds or staff time
- Anything that requires the **expenditure or distribution** of state funds (including federal funds)
- **Not revenues**



Fiscal notes **required** for rules that:

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3. Substantial Economic Impact:

- Have an aggregate annual impact (costs plus benefits) of **>\$3M**
- Unless identical to federal regulation

A rule has a substantial economic impact if:

- Total costs + total benefits > \$3 million in a 12-month period
- Includes costs or benefits to ANY entity – state, local, private sector
- Example: \$1.6 million in costs + \$1.6 million in benefits > \$3 million



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What do I have to submit to OSBM?

Before publishing in Register

Does rule have state, local, or substantial economic **impact**?

No

Publish

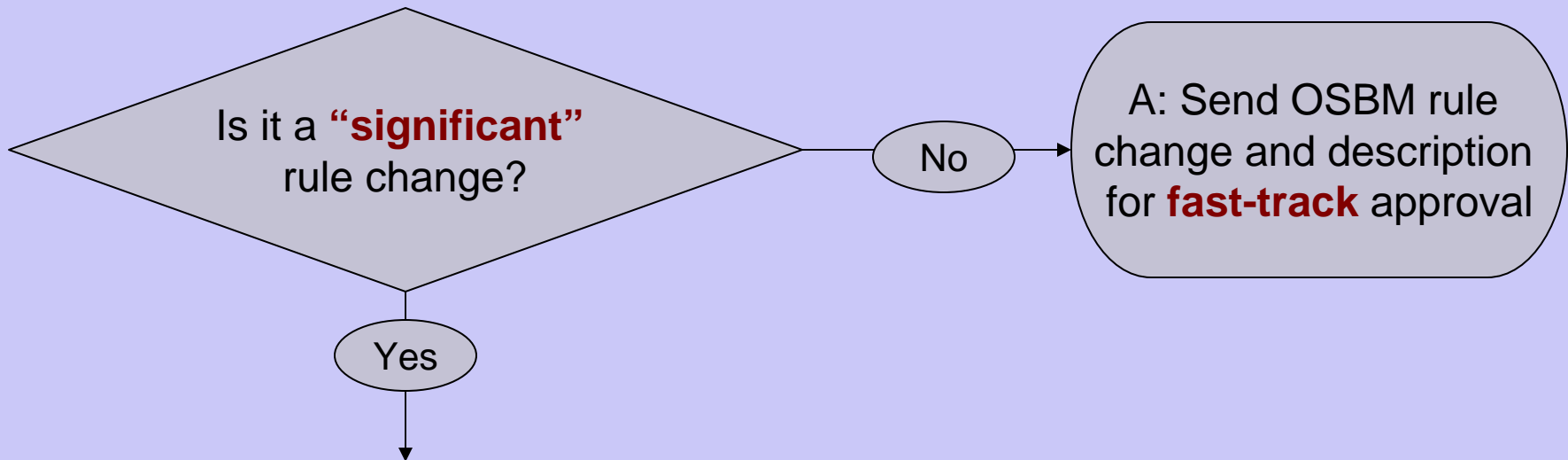
Yes

Is it a **“significant”** rule change?

No

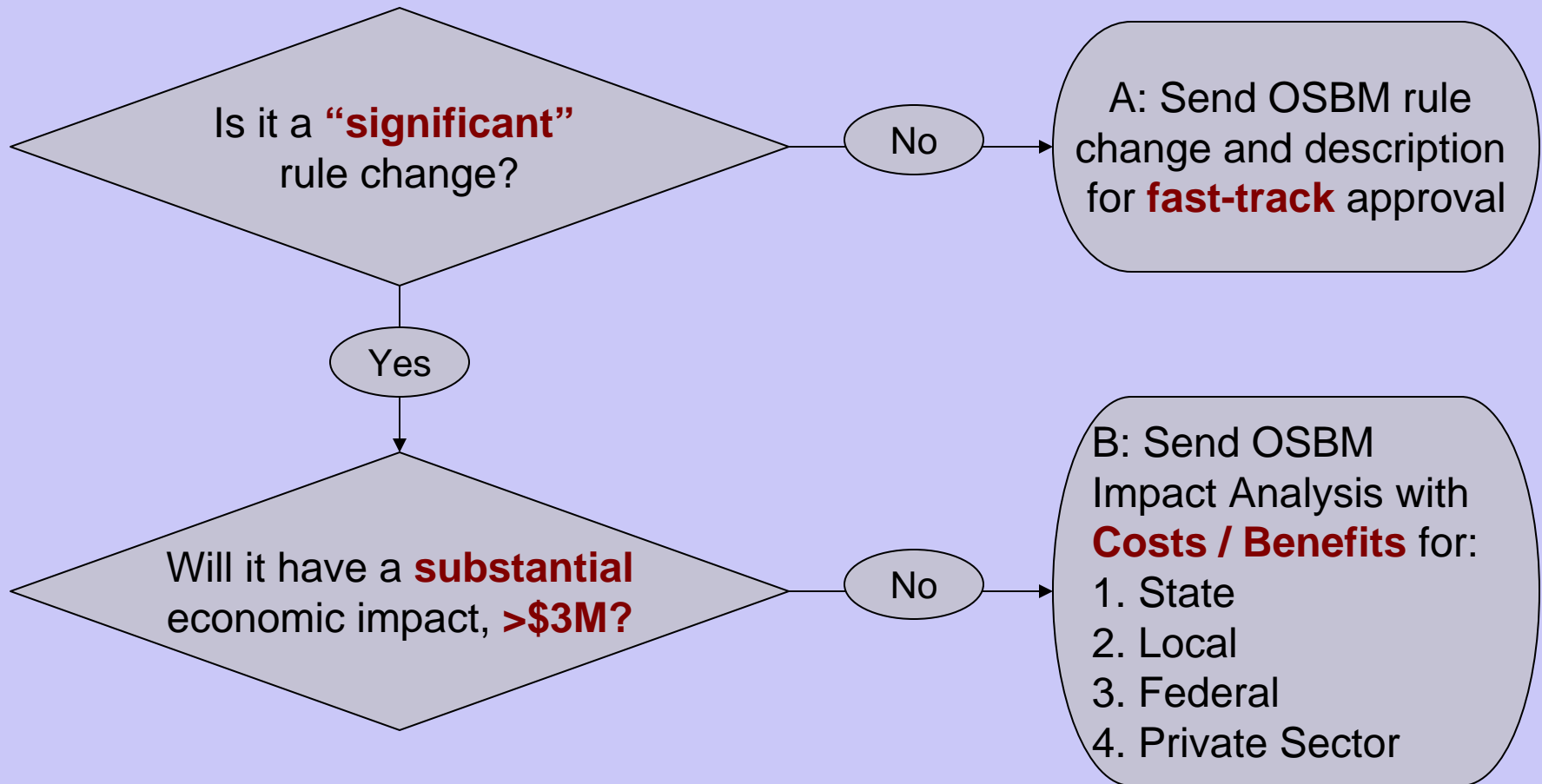
A: Send OSBM rule change and description for **fast-track** approval

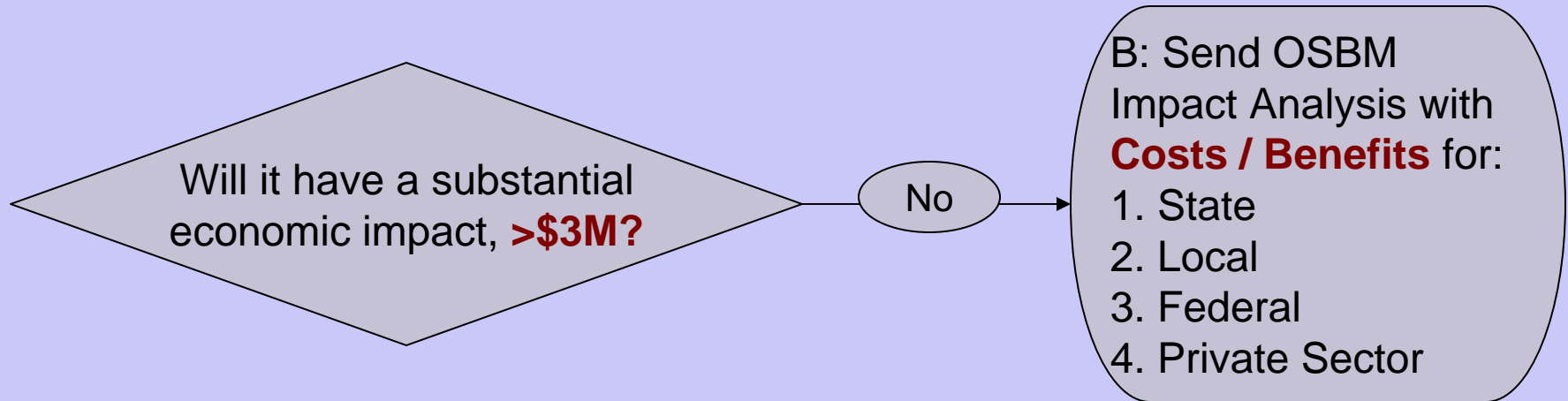
Yes



*A rule change is significant if:

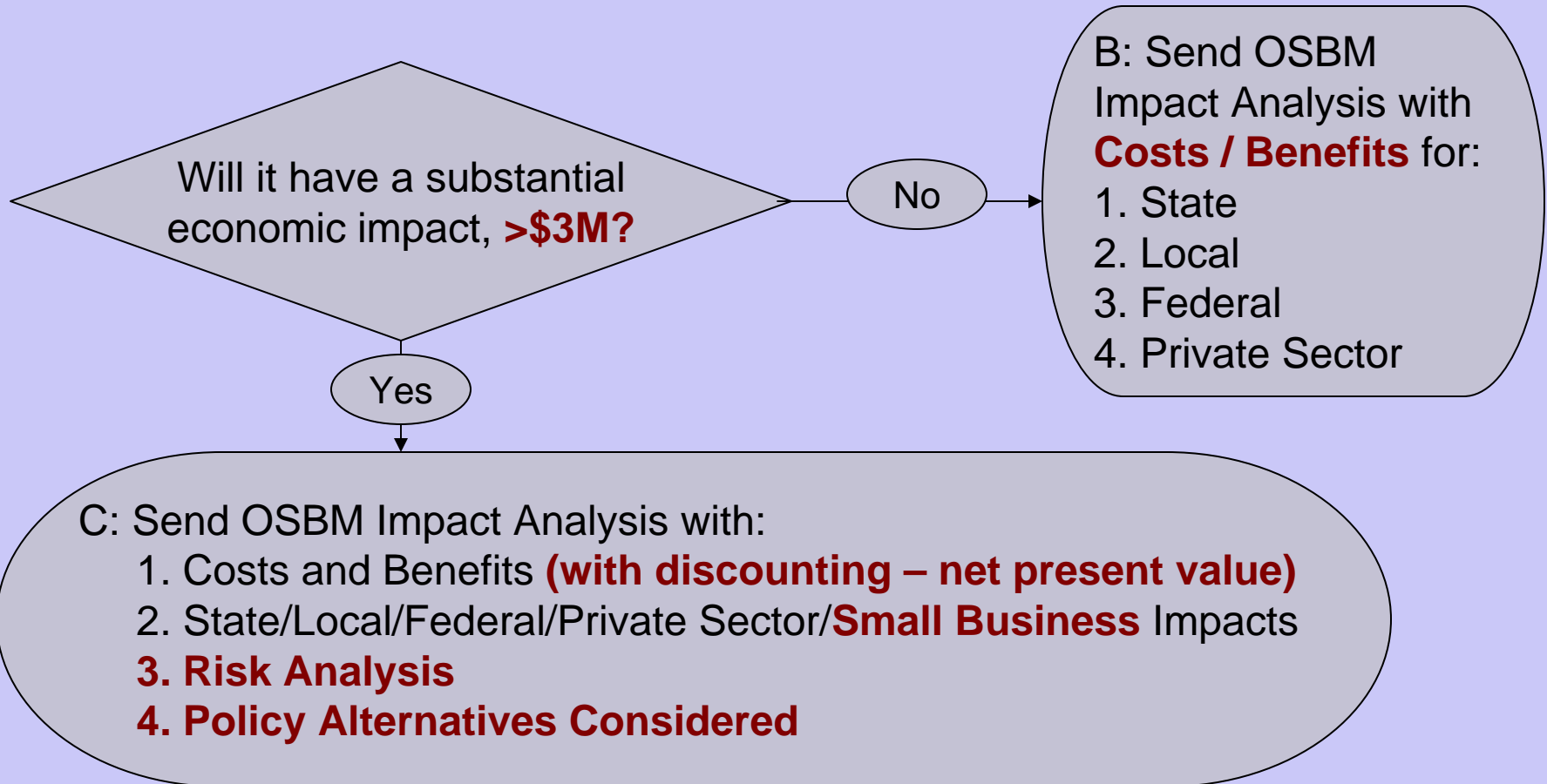
1. It has a **significant effect** on the economy or state or local funds
2. It would create an **inconsistency** with an action planned or taken by another agency
3. It would raise **novel policy issues**





A rule has a substantial economic impact if:

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- Includes costs or benefits to ANY entity – state, local, private sector
- Example: \$1.6 million in costs + \$1.6 million in benefits > \$3 million





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What do I have to submit to OSBM?

C: Send OSBM Impact Analysis with:

1. Costs and Benefits (**with discounting – net present value**)
2. State/Local/Federal/Private Sector/**Small Business** Impacts
- 3. Risk Analysis**
- 4. Policy Alternatives Considered**

Discounting

- Determine **net present value** of costs and benefits using 7% discount rate

Small Businesses

- What types of small businesses are affected, and what are the effects?

Risk Analysis

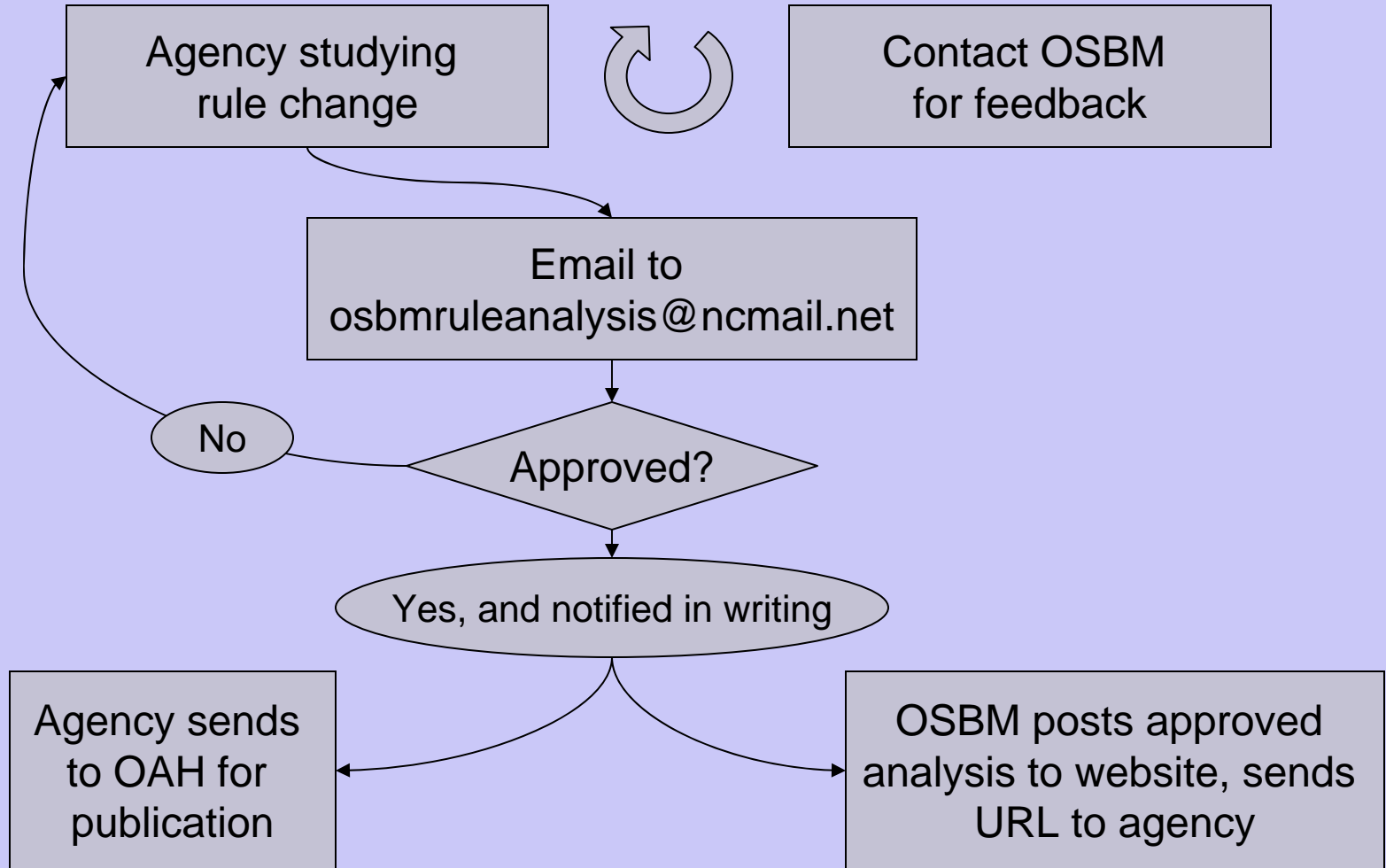
- Possible events that may **jeopardize** anticipated benefits or costs

Policy Alternatives Considered

- Must evaluate **alternatives** deserving consideration
- Sensitivity analysis for a 'continuum' of alternatives



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Approval Process



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What is approval?

Approval:

- OSBM approves a fiscal note if it **correctly assesses** of the costs and benefits of a proposed rule change
- Approval is **not a judgment** on whether benefits are greater than costs



Certification:

- APA requires certification from OSBM “that the **funds** that would be required by the proposed rule change **are available**”
- Rules **may not require** an expenditure of more money than is budgeted



What can we expect for turnaround time?

A: Not A Significant Rule

- A couple of days
- May reject as significant



B: Significant Rule but less than \$3 million

- State funds: no statutory time limit for OSBM
- Local funds: OSBM must review in 30 days

C: Significant Rule and greater than \$3 million

- OSBM must review within 14 days
- Clock starts again if resubmitted after rejection

Structure:

1. Contact information, impact summary
2. Proposed rule: authority, summary, and purpose
3. Costs and Benefits
4. Risk analysis and policy alternatives (if $C+B > \$3m$)

Consider:

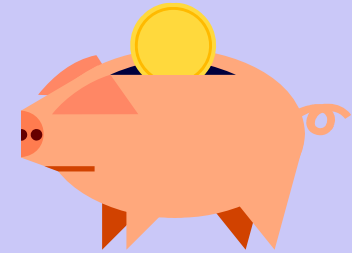
- Baseline for costs and benefits = world without the rule
- Organize by
 - Type of cost/benefit, or
 - Affected group



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Cost/Benefit Analysis Workshop

Costs:

- Think of each group affected by the rule
- Include non-monetary costs (list)
- Include opportunity costs
- If you can't find good data...
 - Do not say "it is impossible to accurately determine costs" ... **estimate!**
 - You will have to **make some assumptions** – just clearly state what they are.





Costs:

- Examples:

1. Increased government **expenditures**

1. Direct payment to groups such as scholarships or grants
2. Higher program overhead or administration

2. **Lost business or lower revenue** for private sector

3. Increased **cost of compliance** for private sector

4. Opportunity **cost of time** to comply with rule



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Benefits:

- Think of each group affected by the rule
- Include non-monetary benefits (list)
 - Consider cost-effectiveness analysis (\$ per life saved)
- If you can't find good data...
 - Estimate
 - Make some assumptions



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Benefits:

- Examples:
 1. Government payments to groups (e.g. scholarships)
 2. Decreased government **expenditures**
 1. Lower program overhead or administration
 3. **More business or higher revenue** for private sector
 4. Decreased **cost of compliance** for private sector
 5. Better health, longer life, higher earnings for individuals





Cost/Benefit Analysis: Example #1 –

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



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C/B #1 – Who are the affected parties?

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



C/B #1 – What are the costs/benefits to: ***Former foster children***



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



C/B #1 – What are the costs/benefits to: *State government (taxpayers)*

- Costs
 - Scholarship 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?





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C/B #1 – Further Research and Calculations

- Aid will **allow all scholarship recipients to graduate** college – 50% would not have otherwise graduated
 - So 500 additional college graduates
- \$900,000 in **additional lifetime earnings** for college graduates over college dropouts (or never attended)
 - Say \$20,000 per 44 working years (oversimplified, I know)
- Foster children who graduate from college require \$10,000 **less in government programs** and pay \$5,000 more in taxes over their lifetime
 - Say \$275 per year



C/B #1 – Assumptions and Calculations

- College dropouts and HS graduates will earn \$20,000/year in their 20s
 - Those 500 additional graduates will **lose this income**
 - \$10,000,000 lost income for each year in college
- Better health/life expectancy is **not quantifiable**
 - But that's ok!





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Cost/Benefit Analysis Workshop

C/B #1 – Some numbers: Costs

Cost (NPV)	2008	2009*	2010*	2011*
State Government: Scholarship funds	\$3,000,000	\$2,803,738	\$2,620,316	\$2,448,893
State Government: Admin costs	\$500,000	\$467,289	\$436,719	\$408,148
Former Foster Children: Lost income from college	\$10,000,000	\$9,345,794	\$8,734,387	\$8,162,978
Total	\$13,500,000	\$12,616,822	\$11,791,422	\$11,020,021

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



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C/B #1 – Some numbers: Benefits

Benefit (NPV)	2008	2009*	2010*
Former Foster Children: Scholarship funds	\$3,000,000	\$2,803,738	\$2,620,316
Former Foster Children: Addl Lifetime Earnings	\$0	\$0	\$0
Former Foster Children Better Health/Life Expect.	?	?	?
State Government: Fewer program payments	\$275	\$257	\$240
Total	\$3,000,275 + Better Health	\$2,803,995 + Better Health	\$2,620,556 + Better Health

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



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C/B #1 – Some numbers: Net Social Benefit

(NPV)	2008	2009	2010	2011
Total Benefit	\$3,000,275 + Health	\$2,803,995 + Health	\$2,620,556 + Health	\$2,449,118 + Health
- Total Cost	\$13,500,000	\$12,616,822	\$11,791,422	\$11,020,021
Net Social Benefit	-\$10,499,725	-\$9,812,827	-\$9,170,866	-\$8,570,903

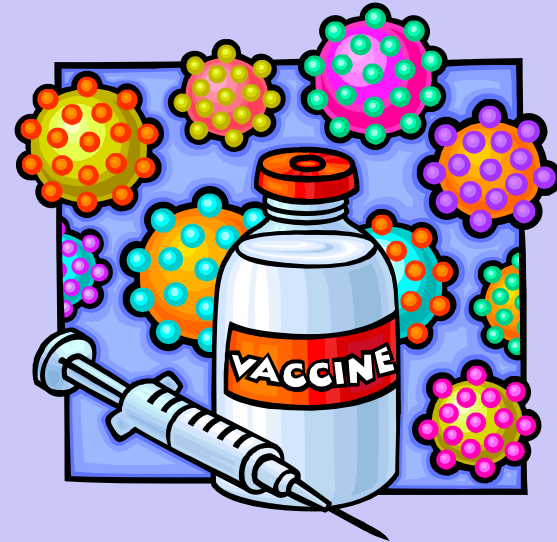
Uh oh... what's going on here?

- Benefits may accrue **long after** a program is over.
 - In 2012, the program will stop being a cost to the state government
 - Students will earn **additional earnings** from 2012 until ???
- Projecting far into the future and **discounting** can be important



Cost/Benefit Analysis #2 –

- Require all 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 Kids
 - NC Parents
 - Doctors
 - Clinic workers
 - State government





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C/B #2 – Costs

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





C/B #2 – Benefits

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



C/B #2 – Some numbers

To quantify costs and benefits of this program:

- **Research** available data
 - Cost of time = 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?





Where to go for help?

- OSBM Rule Analysis website
 - <http://www.osbm.state.nc.us/osbm/RegulatoryAnalysis.html>
- OSBM Budget Manual (Chapter 7)
 - http://www.osbm.state.nc.us/files/pdf_files/2007BudgetManual.pdf
- OMB Circular A-4
 - <http://www.whitehouse.gov/omb/circulars/a004/a-4.html>
- Ask me for feedback/assistance
 - 919-807-4740
 - william.crumbley@ncmail.net





Questions?

