

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

before the
Subcommittee on Intergovernmental Relations
United States Senate

April 2, 1985

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. I will also comment briefly on how this experience might be relevant for the state-local cost estimates that would be required by S. 483, the **Inter-governmental Regulatory Relief Act of 1985**.

State and Local Government Cost Estimate Act of 1981

The State and Local Government Cost Estimate Act, enacted in December 1981, directs the CBO to prepare estimates of the cost that would be incurred by state and local governments 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 **state-local** cost estimates are to be included in the estimates of costs that would be incurred by the federal government in implementing reported legislation that CBO has been doing since 1976. This new costing requirement took effect on October 1, 1982, and CBO's first **state-local** cost **estimate** was prepared in November 1982.

CBO Guidelines and Procedures

CBO did a lot of planning work during 1982 to get ready for the new costing requirement. We established contact with a number of officials of state and local governments, representatives of various associations of state

and local governments, executive branch personnel, and intergovernmental research groups. The purpose of this effort was to provide our cost **analysts** ready access to information needed to prepare the **state-local** cost estimates. We also developed guidelines, procedures, and standard formats for our cost analysts to follow in preparing the cost estimates. A copy of these guidelines and procedures is appended to my statement.

I would like to emphasize two points about our guidelines. First, we have interpreted costs to be the direct budgetary costs or savings that would be incurred by state and local governments as a result of the reported legislation. Such costs are equivalent to the direct budgetary costs and savings that CBO estimates for the federal government for implementing reported legislation. We do not try to estimate possible **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 implementing legislation if these could be absorbed within existing budgetary resources.

Second, we have adopted the policy of preparing **state-local** cost estimates for all bills reported in the House and the Senate, whenever this is 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 the \$200 million threshold or the exceptional fiscal consequences criteria, we would have to do much of the required analytical 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.

Experience During the 98th Congress

During 1983 and 1984, CBO prepared 1,214 bill-cost estimates that included an assessment of **state-local** government costs. The vast majority of these bill-cost ~~estimates--1,080~~ or 89 percent—concluded that there would be no cost impact for state and local governments. Only 134 of these bill-cost estimates involved any estimated costs or savings for state and local governments, and for most of the bills the estimated annual costs were below the \$200 million annual threshold. Our records indicate that only 30 bill-cost estimates exceeded the \$200 million threshold, and many of these were for **different** versions of the same legislation.

Although CBO is only required to prepare bill-cost estimates for bills reported from committee, 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~~ whenever possible. Of the 1,214 **state-local** cost estimates that we prepared during the 98th Congress, 177 were for bills at other legislative stages.

So far, we have not run into any major problems in preparing **state-local** cost estimates. Most of the cost estimates involve ongoing programs

where our analysts have sufficient data on hand to estimate the state-local cost impact, or can obtain the needed information fairly quickly through telephone calls to state and local program officials. In some cases, particularly for new program proposals, extensive staff effort is required to develop estimates of potential cost impact. In these cases, we try to obtain data through all possible sources, including such state-local government associations as the Municipal Finance Officers **Association**.

Relevance of CBO **Experience** for S. 483

I do not believe the cost estimating work that would be involved under S. 483 is comparable with our present state-local cost estimating efforts. S. 483 is focused on the actual cost impact of federal regulations, whereas our present work is focused on the potential cost impact of proposed federal legislation. While I believe our state-local cost estimates provide useful information to the Congress for gauging potential costs of legislation, I do not think they are precise or detailed enough for reimbursing state and local governments for actual costs. There is usually some range of uncertainty in our cost estimates, particularly for new programs where we have no prior cost experience to draw on. Also, the more regulatory authority delegated in a bill, the greater is the uncertainty of the bill's potential **state-local** cost impact. Furthermore, we do not prepare cost estimates for individual units of government, but rely on estimates of average impacts on various categories of **state-local** governments. We hope that we are able to estimate a reasonable order of magnitude, but actual costs could turn out to be very different. S. 483 would require a level of accuracy and detail that I **don't** think we could provide with any reasonable degree of certainty.

S. 483 would require reimbursement of regulatory costs not only for implementing new legislation but also for any governmental regulation which took effect prior to the date of enactment of the bill. Title I of S. 483 would require the President to submit to the Congress each year a report on actual and projected regulatory costs. Section 202 would also require the CBO to prepare each year a similar report that would be used as the basis for appropriations. The measurement of actual regulatory costs would be an enormous undertaking. The methodological and data problems would be quite severe. I doubt that CBO could do much to develop an independent analytical capability to estimate these costs. I am not confident that we could even do a good job in evaluating the estimates contained in the President's report. This might be a task better suited to an agency with accounting and auditing skills that could review in depth the basis for these estimates.

S. 483 also would lower the significant bill threshold for our ~~state-~~ local cost estimates from \$200 million to \$100 million. As I have indicated earlier in my statement, we have chosen to ignore the \$200 million threshold so that lowering it would not have any significant **effect** on our present cost estimating work.



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

Alice M. Rivlin
Director

November 29, 1982

MEMORANDUM

TO: Budget Analysis Division **Staff**

FROM: C.G. Nuckols

SUBJECT: Guidelines and Procedures for State and Local Cost Estimates

This memorandum provides interim guidelines and procedures for making state and **local** cost estimates under the requirements of the State and Local Cost Estimate Act of 1981, P.L. 97-108. Please read these guidelines **carefully**. We will use them throughout the lame duck session of the 97th **Congress**.

To help determine whether these guidelines should be revised, please send me written comments that suggest solutions to problems you encounter with them during the lame duck session. If necessary, the guidelines could be revised, based on experience from the lame duck session, **before** the 98th Congress convenes. Ultimately, these guidelines will be incorporated into an updated version of CBO's general instructions **for** bill cost estimates.

COVERAGE

The Act **1/** requires CBO to produce estimates when, in the opinion of the Director, the annual aggregate cost of the law to state and local governments is \$200 million or more, or when the cost "is likely to have exceptional fiscal consequences for a geographic region or a particular level of government."

Appropriations bills are not covered by this requirement. Cost estimates for tax legislation will be prepared by the Tax Analysis Division, when it is feasible to do so.

1/ A copy of Section **403** of the Budget Act of **1974**, as amended by the State and Local Cost Estimate Act of **1981**, is included as Appendix A.

The \$200 Million Threshold

Calculations of state and local costs should be made if there is a reasonable expectation that they will exceed the \$200 million per year threshold.

If costs are estimated to fall below the threshold, a statement or discussion of why they are below should be included in the **CBO** cost estimate. For example, such a discussion might state that with a federal grant authorization of \$375 million per year and a required state/local match of 25 percent, costs would be \$125 million per year, unless the states had previous spending that would lower costs or required conditions of aid that would raise costs. Alternatively, the discussion could note that an entitlement change resulting in federal savings of \$300 million per year with a state financial participation of 50 percent would result in state/local savings of \$150 million per year unless there were offsetting expenditures in state-funded programs. Where the analyst has calculated annual state and local government expenditures that are below \$200 million, or could do so with little **difficulty**, they should be included in the cost estimate.

The following language should be **inserted** for bills with no state and local costs:

"The Congressional Budget Office has determined that the budgets of state and local governments would not be affected directly by the enactment of this **bill.**"

The following language should be inserted **for** bills with state and local costs below \$200 million per year:

The Congressional Budget Office has determined that the budgets of (Insert **'state'** or **'state and local'** or **'local'**) governments would be affected directly by the enactment of this bill. The annual cost impact, however, is estimated to be less than \$200 million." (Add pertinent information that explains why the annual cost estimate will be under \$200 million.)

The "Exceptional Fiscal Consequences" Threshold

The Act requires cost estimates for bills that are "likely to have exceptional **fiscal** consequences **for** a geographic region or a particular level of government." It is not easy to determine if a bill will have "exceptional **fiscal** consequences." The effects of federal legislation are normally varied across the states; it is uncommon for the effects of a bill to be concentrated on a single government or region. **Consequently**, it is not

likely that many bills will lead to cost estimates being prepared for **particular** states or regions. No single amount seems suitable for an "exceptional fiscal consequences" threshold. The \$200 million per year threshold represents an average of .05 percent of state and local expenditures. Thus \$25 million per year could be a suitable threshold for California and New York, whose budgets are sharply above those of other states. A threshold of \$5-10 million per year could be a reasonable "exceptional fiscal consequence" for other states, depending on the annual **level** of state and local expenditures in each state.

COST FIGURES

Costs are to be calculated for each year over a **five-year** period. The cost **figures** to be reported are state and local cash outlays. Outlays should be reported for federal **fiscal** years.

Range estimates may be used to show state and local costs under alternative assumptions about state participation, administrative actions, and other factors.

Geographical breakouts of national cost figures should not be released unless the methodology provides a state-by-state estimate that is appropriate for release.

CBO will not require the use of a set of standard geographic regions. Although the Census Bureau has developed standard geographic regions and **divisions**, a number of federal agencies use **different classifications** of states into regions. If the cost estimate has a significant regional impact, the **classification** of regions that best describes this impact should be used.

COST CONCEPTS

The costs **identified** in the CBO estimates will be the direct budgetary costs or savings to state and local governments. Such costs are equivalent to the direct budgetary costs or savings we presently estimate for the federal government. Cost estimates should not be prepared for bills with **second-order** effects on states and localities (e.g., a bill that affects state tax revenues through its impact on the economy).

An example of direct budgetary costs is shown below for the case of a federal grant of \$75, which requires a \$25 state match. There are other conditions of aid associated with the **grant--for** example, regulatory requirements or administrative **costs--which** total \$10. State costs in this case would be \$35.

(GR)	Grant revenues of states	\$75
(M)	Match put up by states	\$25
(COA)	Other conditions of aid	\$10

$$\text{State costs} = M + \text{COA} = \$25 + \$10 = \$35$$

While the cost concept is straightforward, implementation will often be **difficult**. First, it is necessary to know what state and local expenditures would be in the absence of the legislation. Second, it is necessary to estimate state responses. These two issues are discussed below.

Estimates should be of incremental costs and savings resulting from legislation. In order to develop estimates of these incremental changes, it is necessary to project what state and local governments would spend in the absence of the legislation. For example, had the states already been spending the amount of a required match under a new federal grant program, and thus could be expected to continue that level of spending in the absence of the federal program, state costs would be only the costs of any new conditions of aid, as shown below.

<u>Without the new grant</u>	<u>With the new grant</u>	
State expenditures (SE) \$25	GR	\$75
	M	\$25
	COA	\$10

$$\text{State costs} = M + \text{COA} - \text{SE} = \$25 + \$10 - \$25 = \$10$$

Measuring the **effect** on state budgets of federal legislation will often entail estimation of state responses. For example, when federal welfare programs are reduced, to what extent do existing state-only welfare programs automatically incur added costs and/or to what extent will states pass legislation raising state welfare costs? Estimation of these state responses is difficult and subject to considerable uncertainty, and the use of ranges for the estimates is often appropriate. For discretionary accounts, CBO's estimates will continue to be based on the assumptions that all funds authorized are appropriated (or obligated) and that all the appropriated funds are ultimately expended. If historical experience indicates that authorized funds have generally not been fully appropriated or that appropriated funds will not be fully obligated, and that this would have an effect on state and local costs, the basis of the estimate should note the possibility of this **effect**. If other assumptions are used for the discretionary accounts (for "such sums" legislation, for example), the state and local

government cost estimates should be consistent with the federal estimate. Estimation of what states would spend in the absence of the proposed legislation may be particularly difficult in the case of a reauthorization of an ongoing program. In such cases, it may be necessary to use a range of possible state responses in the absence of a reauthorization.

Some legislation may require state and local governments to comply with its provisions; other legislation may permit voluntary actions. Where the program is voluntary, states may experience added costs but the nature of the costs is different from the case where the state costs are mandated. Each cost estimate should identify the assumptions about whether costs are voluntary or mandatory, including the **levels** of participation, and, if possible, should disaggregate the budgetary **effects** accordingly.

Where a program is reauthorized at the end of its legislative life, costs as estimated by CBO are **for** the total authorization. The basis of estimate, however, should note the **difference** between the reauthorized program level and the previously authorized and appropriated levels, especially where a different financing level or changes in the federal/state matching ratio **affects** the estimated outlays.

Where a program is reauthorized **during** its existing life, the net incremental effect should be calculated. That is, state costs under the existing authorization will be netted against the new authorization to measure the new state costs or savings. This applies for changes in the funding levels, matching ratios, program parameters, grant eligibility, etc.

FORMAT

State and local cost estimates will be incorporated into the existing cost estimate form. Section 5 will be entitled "Estimated Cost to the Federal Government" and will include the basis of estimate for federal expenditure (formerly Section 6) as part of the fifth section. The comparison of estimate section **will** become Section 7 and the previous estimate for federal costs section will become Section 8. Sections 7 and 8 will be used for information pertaining to both federal and state/local estimates.

A separate section (Section 6) entitled "Estimated Cost to State and Local Governments" will be added. This section will include a detailed explanation of the basis of the estimate.

A model cost estimate format is included as Appendix B.

PROVISION OF COST ESTIMATES TO COMMITTEES

State and local cost estimates are to be included in committee reports. A completed federal cost estimate, however, should not be withheld from a committee if a related state and local cost estimate is incomplete. In such cases, the state and local cost estimate should be completed as soon as possible. A revised federal cost estimate will be made if the completed state and local cost estimate suggests the need to change the initial federal cost estimate.

The appropriate version of the language shown below should be inserted for instances in which the state and local estimate has not yet been completed when the federal estimate is forwarded:

- o Include in the cover letter for the cost estimate if state and local cost is expected to be significant:

"The enclosed estimate addresses the cost impact of this bill on the federal budget. Preliminary **analysis** indicates that the bill could have a **significant** impact on the budgets of (Insert '**state**' or '**state and local**' or '**local**') governments. The results of CBO's analysis will be provided (to the Committee) by (Give date when possible, otherwise insert '**as soon as possible**')."

If no information on state and local costs is available, or if the impact is probably **small**, no reference is necessary in the cover letter.

- o Include in Section 6 of Cost Estimate:

"The Congressional Budget Office analysis of the state and local costs of this bill is not yet complete. Preliminary results, however, indicate that (Insert appropriate adjective '**significant**', '**some**', etc.) (Insert '**state**' or '**state and local**' or '**local**') budgetary impacts are possible. The final results will be available by (give approximate date where possible, otherwise insert '**as soon as possible**')."

EXAMPLE

6. Estimated Costs to State and Local Governments:

This bill would provide \$600 million in federal funds to states and **localities** for use in airport development programs. Estimated state and

local outlays for this program, including matching funds and administrative costs, are shown in the following table.

(By fiscal years, in millions of dollars)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
State and local outlays	42.4	42.4	42.4	---	---

Any state, county, municipal or other public agency is eligible for airport development grants if its airport is listed in the National Airport System Plan. The federal government share of **allowable** costs may not exceed 75 percent for a commercial air carrier airport and 90 percent for other airports (small general aviation airports and commuter service airports). It was assumed, based on recent historical experience, that one-third of the **grants-in-aid** to airports (or \$200 million) will go to the large commercial air carrier airports; these would require a 25 percent state/local match, totalling \$66.7 million. Two-thirds of the grants (or \$400 million) are assumed to be awarded to smaller airports; these would require a 10 percent state/local match, totalling \$44.5 million. It was further assumed that recent historical experience for disbursement of grant funds would continue, that is, one-third of the total amount in each of the three years of eligibility. Administrative costs for state and local governments, including the preparation of environmental impact statements, are estimated to be about \$16 million.

Because the **grants-in-aid** to airports program has been in existence since 1970, there is no clear basis to project state spending in the absence of this legislation. States and localities spent approximately \$30 million in fiscal year **1982** for similar purposes.

APPENDIX A. SECTION 403 OF THE CONGRESSIONAL BUDGET ACT
AS AMENDED BY THE STATE AND LOCAL COST
ESTIMATE ACT OF 1981

CHANGES IN EXISTING LAW BY THE BILL

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

SECTION 403 OF THE CONGRESSIONAL BUDGET ACT
OF 1974

ANALYSIS BY CONGRESSIONAL BUDGET OFFICE

Sec. 403. (a) The Director of the Congressional Budget Office shall, to the extent practicable, prepare for each bill or resolution of a public character reported by any committee of the House of Representatives or the Senate (except the Committee on Appropriations of each House), and submit to such committee—

(1) an estimate of the costs which would be incurred in carrying out such bill or resolution in the fiscal year in which it is to become effective and in each of the 4 fiscal years following such fiscal year, together with the basis for each such estimate; [and]

~~(2)~~ *an estimate of the cost which would be incurred by State and local governments in carrying out or complying with any significant bill or resolution in the fiscal year in which it is to become effective and in each of the four fiscal years following such fiscal year, together with the basis for each such estimate; and*

~~[(2)]~~ *(3) a comparison of the [estimate] estimates of costs described in paragraph (1) and (2), with any available [estimate] estimates of costs made by such committee or by any Federal agency.*

The [estimate] estimates and comparison so submitted shall be included in the report accompanying such bill or resolution if timely submitted to such committee before such report is filed.

(ft) For purposes of subsection (a)(2), the term "local government" has the same meaning as in section 103 of the Intergovernmental Cooperation Act of 1968.

(c) For purposes of subsection (a)(2), the term "significant bill or resolution" is defined as any bill or resolution which in the judgment of the Director of the Congressional Budget Office is likely to result in an annual cost to State and local governments of \$200,000,000 or more, or is likely to have exceptional fiscal consequences for a geographic region or a particular level of government.

APPENDIX B. SAMPLE FORMAT OF A COST ESTIMATE

CONGRESSIONAL BUDGET OFFICE

COST ESTIMATE

Date

1. BILL NUMBER: Not yet assigned.
2. BILL TITLE: Clean Air Act Amendments of 1982
3. BILL STATUS:

As ordered reported by the Senate Committee on Environment and Public Works, August 19, 1982.

4. BILL PURPOSE:

This bill amends and extends the Clean Air Act. It requires the Environmental Protection Agency Administrator to conduct studies and prepare reports regarding clean air issues, including hazardous air pollutants, indoor air quality, wood smoke pollution, and industrial emission limits. The bill authorizes the appropriation of \$5 million in each of fiscal years **1983-1985** for matching grants to state projects to develop improved or innovative methods of neutralizing or restoring the buffering capacity of bodies of water altered by acid rain. An additional appropriation of **\$50** million is authorized for fiscal year **1984** to fund up to 25 percent of a joint demonstration project among the Tennessee Valley Authority (**TVA**) and others for electricity generation using an atmospheric **fluidized** bed combustion process. **Appropriations** authorized for purposes of carrying out other provisions of the bill amount to \$192 million for fiscal year 1983, \$215 million for **1984**, and \$211 million for each of fiscal years 1985 through 1987.

5. ESTIMATED COST TO THE FEDERAL GOVERNMENT:

(by fiscal years, in millions of dollars)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Authorization Level	197	270	216	211	211
Less: Estimated Existing Appropriation	155	—	—	—	—
Net Authorization	<u>42</u>	<u>270</u>	<u>216</u>	<u>211</u>	<u>211</u>
Estimated Outlays	25	143	182	207	223

The costs of this bill **fall** within budget function 300.

Basis of Estimate:

The authorization levels are those stated in the bill. Appropriations of \$155 million was provided by Public Law 97-272 for clean air programs for fiscal year 1983. An additional appropriation of \$10.5 million for EPA salaries and expenses was included in that appropriation bill, but EPA has not yet allocated that amount among programs. The actual appropriation for air programs will be higher by the amount allocated to clean air programs. Beginning with fiscal year **1984**, appropriations are assumed to occur prior to the start of each fiscal year. Based on information provided by the **TVA**, the cost of the demonstration project is estimated to be \$200 million. For purposes of this estimate, it was assumed that the TVA will be successful in securing 75 percent of that amount from private sector contributions, and the \$50 million authorized to fund the remaining 25 percent will be appropriated. Outlays were estimated based on information from the TVA and the past spending patterns for clean air programs.

6. ESTIMATED COST TO STATE AND LOCAL GOVERNMENTS:

This bill would provide \$5 million for each of fiscal years **1983-1985** to states to fund up to 75 percent of costs for programs related to neutralizing or restoring the buffering capacity of **acid-altered** bodies of water. In **addition**, certain administrative responsibilities would be added to those currently conducted by state and local governments. Estimated state and local outlays resulting from enactment of this bill are shown in the following table.

(by fiscal years, in **millions** of dollars)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Estimated state and local outlays	16	17	12	10	10

There is no clear basis for estimating how much of the outlays shown in the above table would be expended by states in the absence of this bill.

Basis of Estimate:

For purposes of this estimate, it was assumed that, in order to receive matching grants in fiscal years **1983-1985**, eligible states will provide voluntarily 25 percent of program costs for **acid-altered** bodies of water, resulting in outlays of \$1 million in 1983, \$2 million each year in 1984 and 1985, and less than \$1 million in 1986. Initial program development costs of increasing state administrative responsibilities, primarily for prevention of significant deterioration (PSD) and acid rain control programs, are estimated to average \$500,000 per state, or ~~\$25 million--\$15 million~~ in 1983, and \$10 **million** in **1984**. The estimate assumes that the acid rain control program is mandatory and that the PSD requirements are voluntary with all eligible

states participating. Ongoing program costs, beginning in **1984**, are estimated to be an average of \$150,000 per state **or** \$7.5 million annually (at 1982 prices). These costs will vary depending on size, location, and response of each state. Corresponding **outlays** are estimated to be \$5 million in **1984**, and \$10 million annually thereafter. In 1981, states spent about \$230 million for clean air programs. This estimate was based on information obtained from the State and Territorial Air Pollution Program Administrators.

7. ESTIMATE COMPARISON: None.
8. PREVIOUS **CBO** ESTIMATE: None.
9. ESTIMATE PREPARED BY: Anne E. **Hoffman(226-2860)**
10. ESTIMATE APPROVED BY:

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