

MEMORANDUM

TO: County Council

FROM: Robert H. Drummer, Senior Legislative Attorney 

SUBJECT: **Worksession:** Expedited Bill 47-10, Administration – Legislative Branch –
County Council – Economic Impact Statements

Expedited Bill 47-10, Administration – Legislative Branch – County Council – Economic Impact Statements, sponsored by Councilmember Knapp, Council President Floreen, Council Vice President Ervin, and Councilmembers Navarro and Berliner was introduced on July 27, 2010. A public hearing was held on September 21.

Background

A complete economic impact statement is an important tool for the Council to review in making public policy decisions necessary to enact legislation. The Code does not currently require an economic impact statement. Bill 47-10 would require the Director of the Office of Management and Budget (OMB) to submit an economic impact statement to the Council for each bill under consideration before Council action. The Bill would also establish a timeline for submission and the required content for the statement. A Bill would not be subject to challenge solely because OMB failed to timely submit an economic impact statement to the Council.

Public Hearing

OMB Director Joseph Beach testified in support of the Bill on behalf of the Executive. See ©7-8. Mr. Beach suggested that the Bill's description of the required contents of an economic impact statement be clarified and that OMB be given additional time to prepare statements on complex legislation or during busy times. Mr. Beach promised to provide proposed amendments at the worksession.

Issues

1. What is the fiscal impact of the Bill?

The OMB fiscal impact statement points out that the Bill would require economic impact analysis not currently being done. See ©5-6. OMB estimates that this new requirement would

add 6-8 hours of preparation and review time for each bill. OMB also states that the required economic analysis would require the development of a model by a consultant at an estimated cost of \$20,000 to \$40,000. OMB estimates that the additional staff time to prepare statements can be accomplished without additional staff resources.

2. Should the timeline for submission of the statement be extended?

As promised at the public hearing, OMB Director Joe Beach provided additional written comments and a suggested amendment in a September 23 memorandum. See ©9-11. Mr. Beach suggested the following language be added after line 19:

- (3) If Executive Branch staff need additional time to prepare the analysis they will notify the Council President indicating when the fiscal impact statement will be submitted.

Mr. Beach points out that the required analysis will vary for different bills and that the analysis may require information provided by non-government sources over which the Executive Branch has no control. The suggested amendment would permit Executive staff to grant themselves an extension of time to submit the statement. The timeline in the Bill is not a hard deadline. It is a guideline using the word “should” rather than “must.” There is no penalty for missing the 21-day guideline. Although we agree that the 21-day guideline may be unreasonable for some bills, the recommended amendment would make the 21-day guideline less meaningful.

3. Should the Director of Finance be substituted for the Director of OMB?

Mr. Beach pointed out that the Department of Finance is responsible for economic projections and recommended substituting the Director of the Department of Finance for the OMB Director. Council staff agrees with this suggestion.

4. Should the County Code require an economic impact statement for legislation?

OMB has recently added an economic impact statement to its fiscal impact statements for legislation. Although it is not required by law or Council rules, the Montgomery County Plain Language Drafting Manual requires a Legislative Request Report that includes a section for economic impact. The Drafting Manual is a 25-year old document that was created for use by Council staff. The Drafting Manual is referred to in the Council Rules, but it does not have the force of law. An alternative to legislation would be a Council Rule of Procedure requiring an economic impact statement for legislation. However, the Montgomery County Council Rules of Procedure do not bind the Executive Branch and can be suspended for a specific matter upon a vote of 6 Councilmembers. This Bill would require the Executive Branch to submit an economic impact statement for each bill and establish the required content and timing.

The County Council, as the final fiscal authority, must insure that tax money is spent wisely. The Council, as the elected legislature for the County, has an additional responsibility to enact laws to promote the health and welfare of the County’s residents. Promoting economic

development in the County is a critical part of this duty. The Council must consider the economic impact of legislation in order to perform this duty. Although the preparation and review of an economic impact statement would require additional resources, the additional resources identified by OMB appear to be small compared to the potential benefit. **Council staff recommendation:** approve the Bill with an amendment substituting the Director of Finance for the OMB Director.

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Expedited Bill No. 47-10
Concerning: Administration – Legislative
Branch – County Council – Economic
Impact Statements
Revised: July 28, 2010 Draft No. 5
Introduced: July 27, 2010
Expires: January 27, 2012
Enacted: _____
Executive: _____
Effective: _____
Sunset Date: _____
Ch. _____, Laws of Mont. Co. _____

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

By: Councilmember Knapp, Council President Floreen, Council Vice President Ervin, and
Councilmembers Navarro and Berliner

AN EXPEDITED ACT to:

- (1) require the Executive to submit a statement to the Council describing the economic impact of a bill before Council action; and
- (2) generally amend the law governing the consideration of bills by the Council.

By adding

Montgomery County Code
Chapter 2, Administration
Article IV, Legislative Branch
Section 2-81A

Boldface	<i>Heading or defined term.</i>
<u>Underlining</u>	<i>Added to existing law by original bill.</i>
[Single boldface brackets]	<i>Deleted from existing law by original bill.</i>
<u>Double underlining</u>	<i>Added by amendment.</i>
[[Double boldface brackets]]	<i>Deleted from existing law or the bill by amendment.</i>
* * *	<i>Existing law unaffected by bill.</i>

The County Council for Montgomery County, Maryland approves the following Act:

1 **Sec. 1. Section 2-81A is added as follows:**

2 **2-81A. Economic Impact Statements**

3 (a) Definitions. In this Section, the following words and phrases have the
4 following meanings:

5 Director means the Director of the Office of Management and Budget.

6 Economic impact means an estimate of the costs and benefits to private
7 organizations and individuals in the County attributable to a change in
8 the law.

9 (b) Economic impact statements. The Director must submit a statement to
10 the Council describing the economic impact, if any, of each bill under
11 consideration by the Council. The Director must submit a separate
12 statement for each bill.

13 (c) Time for submission. An economic impact statement should be
14 submitted to the Council:

15 (1) no later than 7 days before the public hearing on each bill
16 introduced by the Council President at the request of the County
17 Executive; and

18 (2) no more than 21 days after a bill sponsored by a Councilmember
19 is introduced.

20 (d) Content of economic impact statement. Each economic impact
21 statement must include:

22 (1) the sources of information, assumptions, and methodologies
23 used;

24 (2) a description of any variable that could affect economic impact
25 estimates;

26 (3) the bill's positive or negative effect, if any, on employment,
27 spending, saving, investment, incomes, and property values in the
28 County; and

29 (4) if a bill is likely to have no economic impact, why that is the case.

30 (e) Compliance. Council action on a bill that is otherwise valid is not
31 invalid because of any failure to follow the requirements of this Section.

32 **Sec. 2. Expedited Effective Date.**

33 The Council declares that this legislation is necessary for the immediate
34 protection of the public interest. This Act takes effect on the date on which it
35 becomes law.

36
37 *Approved:*

38

Nancy Floreen, President, County Council Date

39 *Approved:*

40

Isiah Leggett, County Executive Date

41 *This is a correct copy of Council action.*

42

Linda M. Lauer, Clerk of the Council Date

LEGISLATIVE REQUEST REPORT

Expedited Bill 47-10

Administration – Legislative Branch – County Council – Economic Impact Statements

DESCRIPTION: The Bill would require the Director of OMB to submit an economic impact statement to the Council for each bill under consideration by the Council. The Bill would also establish a timeline for submission and the required content for the statement.

PROBLEM: A complete economic impact statement is an important tool for the Council to review in making public policy decisions necessary to enact legislation. The Code does not currently require an economic impact statement.

GOALS AND OBJECTIVES: To enhance the information available to the Council when making public policy decisions necessary to enact legislation.

COORDINATION: OLO, OMB

FISCAL IMPACT: To be requested.

ECONOMIC IMPACT: To be requested.

EVALUATION: To be requested.

EXPERIENCE ELSEWHERE: To be researched.

SOURCE OF INFORMATION: Robert H. Drummer, Senior Legislative Attorney

APPLICATION WITHIN MUNICIPALITIES: NA

PENALTIES: NA



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

September 17, 2010

TO: Nancy Floreen, President, County Council

FROM: Joseph F. Beach, Director

SUBJECT: Expedited Bill 47-10, Administration – Legislative Branch – County Council – Economic Impact Statements (EIS)

The purpose of this memorandum is to transmit a fiscal and economic impact statement to the Council on the subject legislation.

LEGISLATION SUMMARY

The Bill would require the Director of the Office of Management and Budget (OMB) to submit an economic impact statement (EIS) to the Council for each bill under consideration by the Council. The Bill would also establish a timeline for submission and the required content for the statement.

FISCAL SUMMARY

The County Code does not currently require an EIS for all legislation. However, as a normal practice, an EIS is prepared for each bill and Executive Regulation before the County Council. This bill would specifically state what the content of an EIS should be, and is modeled after a report from the Office of Legislative Oversight which examined the Fiscal Impact Statement and EIS process.

The subject legislation will not cause an economic impact, but will increase Executive Branch department workload and require additional resources to implement. The requirements in the legislation regarding the specific content of each EIS will increase staff time needed to complete the EIS and require development of an economic model to analyze the economic impact of legislation. Specifically the subject legislation requires, analysis of “the bill’s positive or negative effect, if any, on employment, spending, saving, investment, incomes, and property values in the County.” In order to determine the positive or negative effects on those variables, certain economic models must be available to analyze the effects of the Bill on all of the variables. More specifically, the analytical framework that identifies and measures the interactions and interdependences of the variables is crucial in the development of economic impact estimates. The development of such a model is estimated to cost approximately \$20,000 to \$40,000 depending on the consultant selected to develop the model and the complexity and features of the economic model.

On average over the past four years, the Council introduces and considers 40 bills per year. It is estimated that the requirements of this bill will add an additional six to eight hours per EIS in preparation and review time, which is approximately one-tenth of a workyear. The constrained timelines

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Nancy Floreen, President, County Council
September 17, 2010
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for preparing and submitting an EIS will impact operations during peak workload times, as staff shift assignments to meet the new deadlines, but will not require additional resources.

The following contributed to and concurred with this analysis: Alex Espinosa and John Cuff, Office of Management and Budget; and David Platt, Department of Finance.

JFB:jc

c: Kathleen Boucher, Assistant Chief Administrative Officer
Dee Gonzalez, Office of the County Executive
Jennifer Barrett, Director, Department of Finance
David Platt, Department of Finance
Alex Espinosa, Office of Management and Budget
John Cuff, Office of Management and Budget

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**Testimony:
Expedited Bill 43-10 Fiscal Impact Statements &
Expedited Bill 47-10 Economic Impact Statements**

Good afternoon, I am Joseph Beach, Director of the Office of Management and Budget and I am here to testify on behalf of County Executive Isiah Leggett in support of Expedited Bill 43-10 Fiscal Impact Statements and 47-10 Economic Impact Statements.

This legislation proposes to require the Executive to submit a fiscal and economic impact statement for each bill before the County Council and specifies the content and required timeline for submission for each statement. The subject legislation is submitted in response to the recommendations of OLO Report 2010-10.

The OLO report provided several findings and recommendations that would improve the content, consistency, and timeliness of fiscal and economic impact statements.

While the Executive welcomed the OLO Report and supports this legislation we believe that some amendments are necessary to: 1) clarify the required content so that future fiscal impact statements adequately address the concerns identified in the OLO report; and 2) provide some flexibility in the timeline for Council sponsored legislation when the complexity of legislation requires extensive collaboration between OMB, Finance, and other departments to understand and analyze the fiscal and economic impacts of the legislation.

In addition, because of the specific economic analysis required in Expedited Bill 47-10 we believe there are some resource requirements to develop an economic model that would allow the Department of Finance to efficiently provide the economic impact analysis required in the legislation.

For most legislation we believe the three week timeframe is achievable. However, with reduced staffing levels in OMB and other departments, the legislation's required timeline for submitting the fiscal impact statements may not be realistic especially during times of peak workload in developing the operating or the capital budgets.

**Testimony:
Expedited Bill 43-10 Fiscal Impact Statements &
Expedited Bill 47-10 Economic Impact Statements**

During the Committee worksession we will offer specific amendments to the legislation to address these concerns.

Thank you for allowing me to comment on this important legislation. We look forward to working with the Management and Fiscal Policy Committee and the Council on this legislation.



OFFICE OF MANAGEMENT AND BUDGET

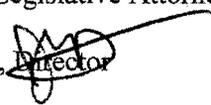
Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

September 23, 2010

TO: Bob Drummer, Legislative Attorney

FROM: Joseph F. Beach,  Director

SUBJECT: Comments: Expedited Bill 43-10 Fiscal Impact Statements and Expedited Bill 47-10 Economic Impact Statements

2010 SEP 23 PM 12:26

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COUNCIL

This memorandum is to provide the Council with comments and suggested amendments for the subject legislation.

Expedited Bill 43-10, Administration – Legislative Branch – County Council – Fiscal Impact Statements

1. Timeframe and the sources of information, assumptions, and methodologies used (Lines 12-22).

Comment: Depending on the legislation, Executive staff is sometimes dependent on non-government or unpublished sources for information. In that case, care must be taken on the reliability of such information and the timeliness of the data. We agree that a complete fiscal and economic impact statement is an important tool for the Council, and it is also important that the information provided by non-government or unpublished sources is reliable and current. In order to ensure reliability of the information and data, more time *may* be required to prepare the economic impact statement than specified in Section 2-81A(c) to validate that information and data. Therefore, we recommend that upon receipt of the Bill for analysis, Executive Staff will inform Council Staff if more time is required in preparation of the economic impact statement to ensure reliability. We recommend amending this bill and EB 47-10 as follows:

(c) Time for submission. A fiscal impact statement should be submitted to the Council:

- (1) no later than 7 days before the public hearing on each bill introduced by the Council President at the request of the County Executive; and
- (2) no more than 21 days after a bill sponsored by a Councilmember is introduced;
- (3) If Executive Branch staff need additional time to prepare the analysis they will notify the Council President indicating when the fiscal impact statement will be submitted.

Office of the Director

2. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs (Lines 28-30).

Comment: Depending on the availability of the Actuary and the complexity of the legislation this may not be accomplished in the timeframe allotted in the bill. No amendment recommended except to the time for submission noted above.

3. “later actions that may affect future revenue and expenditures if the bill authorizes future spending” (Lines 31-32).

Comment: Suggest inserting “government between “later” and “actions” to clarify the specific action that could impact revenues and expenditures.

4. an explanation of how the addition of new staff responsibilities would affect other duties (Lines 34-5).

Comment: This requirement assumes that a department can identify specifically where an department would tend to pare back responsibilities in order to implement the bill, and it also assumes that a department must make a judgment, before the legislation is discussed at the committee level, about what responsibilities would go unmet as a result of the legislation. The specific management of this workload should be left to the program managers. However, the FIS should indicate that this type of workload management will have to take place and identify some potential programmatic impacts. Suggest inserting “general” before explanation to indicate the level of detail required in the explanation.

Expedited Bill 47-10, Administration – Legislative Branch – County Council – Economic Impact Statements

Section 2-81A(d) – Content of economic impact statement. Each economic impact statement must include:

1. Definitions. Director (Line 5)

Comment: The Department of Finance is responsible for economic projections and preparing Economic Impact Statements. Suggest eliminating “Office of Management and Budget” and adding “Department of Finance”. However, all EIS’ will be combined with FIS’ into one memorandum that will be submitted to the Council. OMB and DOF will coordinate the preparation of the consolidated statement.

2. Time for submission (Lines 13-19) see above for recommended amendment.
3. A description of any variable that could affect economic impact estimates (Line 24-25).

Comment: Within any conceptual economic framework, a myriad of variables could affect economic impact estimates. The first step should be to *identify* those variables that *directly* affect the economic impact estimates, that is, the primary economic effects and the basis for selecting that variable either through previous economic impact studies or literature review. Once those variables have been identified, then a description of that variable is the next logical step. No amendments recommended.

4. The Bill's positive or negative effect, if any, on employment, spending, saving, investment, incomes, *and* property values in the County (Line 26-28).

Comment: In order to determine the positive or negative effects on those variables, certain economic models must be available to analyze the effects of the Bill on all of the variables. More specifically, the analytical framework that identifies and measures the interactions and interdependences of the variables is crucial in the development of economic impact estimates. The development of such a framework is necessary to provide a complete economic impact statement that would be important to assist the County Council in reaching a decision "necessary to enact legislation." For example, are there tradeoffs between employment and investment, employment and *personal* saving, and spending and saving? Also do the terms spending and saving refer to spending and saving by the County or the private sector as well? These are conceptual/definitional issues that require careful analysis to achieve the intent of the Bill.

As mentioned in the Executive branch testimony and the fiscal impact statement this provision will require additional resources in the range of \$20,000 to \$40,000 to develop an economic model that will allow the Department of Finance to efficiently provide the complex analysis proposed in the legislation. No amendments recommended.

JBF:df

- c: Jennifer Barrett, Director, Department of Finance
Kathleen Boucher, Assistant Chief Administrative Officer
Aron Trombka, Office of Legislative Oversight
David Platt, Chief Economist
Michael Coveyou, Department of Finance