Montgomery County Government

MONTGOMERY COUNTY COUNCIL

OFFICE OF LEGISLATIVE OVERSIGHT

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TITLE

An Evaluation of Fiscal and Economic Impact Statements

CONTENTS PAGE

Office of Legislative Oversight

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I. SUMMARY

This report evaluates the process behind and substance of fiscal and economic impact statements developed for County legislation, and concludes that:

- Fiscal and economic impact statements are not consistently provided for legislation considered by the Council; and are rarely revised to reflect changes made to bills during the legislative process;

- The responsibility for preparing fiscal and economic impact statements is diffused;

- There is no procedure for comparing fiscal and economic impact estimates to actual implementation costs; and

- The substance of fiscal and economic impact statements varies considerably in terms of approach, complexity, and overall quality.

While recognizing that forecasting potential costs is an inexact science, this report concludes that a systematic process for providing decision-makers with reasonable estimates of future costs and revenues can facilitate decisions that are in the best public interest. To help make fiscal and economic impact statements into a more reliable and timely source of information, the report recommends:

- The responsibility for preparing fiscal and economic impact statements should be concentrated in one department;

- A written set of guidelines and a standard reporting format should be developed for impact statements;

- A more realistic deadline for receiving impact statements should be established and enforced;

- Fiscal and economic impact statements should no longer be a routine requirement for all legislation; instead, limited staff resources should concentrate upon developing higher quality impact analyses for selected bills where the potential marginal cost to the County and/or to a subgroup of the community is of particular concern; and

- The Council should consider requesting fiscal and/or economic impact statements for selected Council Resolutions, planning decisions, and other non-legislative items having potential large dollar effects.

II. AUTHORITY, SCOPE AND METHODOLOGY

A. Authority. Council Resolution No. 10-1741, Subject: CY 1986 Work Program of the Office of Legislative Oversight, adopted February 11, 1986.

B. Scope. This report evaluates the process behind and substance of fiscal and economic impact statements developed for County legislation other than construction authorization and bond bills.

C. Methodology. This project was conducted by Karen Orlansky, Legislative Oversight Program Evaluator, during October 1985 - May 1986, and included interviews and document reviews. Interviews were conducted with County staff and representatives from other governmental jurisdictions. During this evaluation, OLO received full cooperation from all parties.

To study the process of developing fiscal and economic impact statements, OLO chose to focus upon the universe of bills introduced during the County Council's 1984 legislative session. The group of 1984 bills was selected because it is recent enough to reflect current practices and, for selected enacted bills, allowed for enough experience from which to estimate the actual fiscal cost of implementation.

III. BACKGROUND

A. General

Estimates of future costs are often requested as part of the decision-making process at all levels of government. While objective cost analyses do not necessarily determine final decisions, many local governments, a majority of state legislatures, and the U.S. Congress require some type of educated forecast of cost to accompany proposals to create, expand, modify, or terminate a government program or policy.

It is generally agreed that when considering the establishment of a new service or the expansion of an existing service, the appropriate cost to estimate is the marginal cost.[1] This is based upon the assumption that the level of existing services will continue to be provided whether or not the change being considered is implemented. By focusing upon what additional expenditures are required to expand an existing service or deliver a new one, marginal cost estimates are especially useful when overhead costs are relatively fixed.

Although no all purpose formula exists for estimating marginal costs, a sound projection will usually consider the following factors:

- o Direct personnel costs: all personnel expenses including fringe benefits;

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1. Marginal Cost is the incremental increase in total cost associated with an increase in the amount of service provided.

•Direct nonpersonnel costs: cost of all equipment, supplies, and facilities, (these include both consummable materials and assets that depreciate in value over time); and

•Indirect Costs: costs that cannot be assigned to a specific service, but are deemed necessary for the functioning of the organization as a whole.[1]

A marginal cost estimate often uses past experience as a basis for estimating future costs. As long as assumptions about past, present, and future conditions are reasonable and clearly disclosed, they can enhance the value of a cost estimate.

This report adopts the following distinction between the fiscal and economic impact of a proposal: the fiscal impact is the predicted effect upon direct government expenses and revenues; the economic impact is the predicted effect upon the expenditures of private citizens, businesses, and other non-governmental members of the community.

Compared to estimating the fiscal impact, measuring the economic impact of legislation is more complicated. An entire discipline, cost-benefit analysis, has developed around assigning and comparing the prospective dollar value of both the benefits and costs of proposals. A "benefit" is said to occur whenever a person is favorably affected; and a "cost," whenever a person is unfavorably affected. Monetary effects, the actual amounts of money gained or lost, can be valued directly; non-monetary or intangible effects can be assigned dollar values using a variety of assumptions and pricing techniques.

Specific legislative proposals do not equally lend themselves to future costing. The easiest ones are those where activities and/or service units can be identified and measured, and where inputs (costs) can be clearly associated with outputs (services). The most difficult proposals to quantify are those that do not clearly propose an incremental service, and those where no past experience exists from which to reasonably estimate future costs.

B. History of Fiscal and Economic Impact Statements in Montgomery County. A series of Council Resolutions revising the Council's Rules of Procedures and the Plain Language Drafting Manual established and later amended the parameters for legislative fiscal and economic impact statements.

Fiscal Impact Statements. Council minutes indicate that fiscal impact statements were initially considered because:

•The fiscal implication of legislation is an important factor for the Council to consider; and it is "wrong" to receive cost data on the same day a bill was scheduled for final action;

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1. Definitions adapted from Costing Government Services: A Guide for Decision Making, Government Finance Research Center of the Government Finance Officers Association, 1984.

•Citizens attending public hearings want to know the cost of implementing certain bills; and

•Fiscal impact statements can serve as a "disciplinary measure" to minimize Council time spent on unrealistic ideas.

In October 1977, the Council passed Resolution No. 8-1562 requiring requests for legislation by the Executive branch and other County government agencies to include a "statement of fiscal impact" that contained the:

> Impact on Capital Programs and Budget. The report shall include: costs for planning, supervision and design; land; site improvements and utilities; construction; furniture and equipment; expenditure schedule; appropriation request; any monies previously appropriated; and source of funds.
>
> Impact on the Operating Budget. The report shall include: number and types of personnel required (including conditional hiring) and to which organizational element assigned; salaries and wages; retirement and insurance; operating expenses; capital outlay (including items and costs); source of funds, and if other than County, the duration of grants or aid involved; monies to be appropriated currently; and annualized operating costs.

In November 1977, Resolution No. 8-1647 revised the Council Rules of Procedure to require that, "to the extent feasible," bills initiated by the Legislative branch shall also meet the requirements for a fiscal impact statement. The resolution provided that this requirement could be waived by a majority vote of the Council.

Two years later, Resolution No. 9-410 revised the Council Rules of Procedure to outline the form of the legislative request report. The Resolution specified that the fiscal impact statement of any requested bill must include the impact on capital programs and operating budgets in the first and succeeding years and should also include how the estimates of the impacts were made.

Economic Impact Statements. The requirement for legislative economic impact statements was imposed in September 1981 by Resolution No. 9-1433. The legislative request report was expanded to include an economic impact statement described as:

> A statement on the estimated economic impact of the proposed law, including an estimate of the costs and benefits likely to result for private organizations and individuals and a consideration of other economic consequences.

Council minutes indicate that the proposal to require a statement of economic impact was introduced because:

•The Council should be fully aware of the impact its actions have on others and certain bills have potentially serious economic consequences for individuals and organizations; and

•Knowledge about the economic consequences of legislation might forestall the need for corrective action to be taken after a bill is enacted and negative economic impacts occur.

The Council's discussion also suggested that members of the business community expressed the need for specific information concerning the economic impact of legislation.

During the debate on the Resolution to impose the economic impact requirement, the following concerns were voiced:

•Requiring economic impact statements might slow down the legislative process;

•The Council might be imposing additional controls on itself and work on others that is unnecessary; and

•It might be difficult to measure the economic impact of certain bills.

After extensive discussion, the economic impact statement requirement was passed by a vote of 4-0 with one Councilmember abstaining and two absent. The record reflects the Council's understanding that representatives from the private sector had offered to assist with the preparation of economic impact statements.

Plain Language Drafting Manual. In February 1985, the Council, by Resolution, adopted the Plain Language Drafting Manual, which includes an updated format for the legislative request report. Section 212(b) of the manual outlines the contents of the report which include requirements for both fiscal and economic impact statements. The requirements are set forth as follows:

> Fiscal Impact. A detailed estimate of fiscal impact on the capital program and operating budget in the first and succeeding years.
>
> Economic Impact. An estimate of costs and benefits to private organizations and individuals and other economic consequences.

Section 212(a) assigns the responsibility for providing the contents of the legislative request report to the sponsor or government entity requesting introduction of a bill or ordinance. It notes that, "if it is not feasible to submit part of a report, the drafter instead must state why it is not feasible to submit that part." The final subsection of Section 212 specifies that a sponsor may ask for staff assistance from the County Executive in preparing the report on fiscal and economic impact.

IV. EVALUATION OF FISCAL AND ECONOMIC IMPACT STATEMENTS

A. Format of Evaluation. This evaluation of fiscal and economic impact statements assesses both process and substance. Based upon the universe of 1984 legislation:

•Section B examines the PROCESS to determine whether fiscal and economic impact statements were submitted to the Council in a timely manner;

•Section C reviews the SUBSTANCE of fiscal and economic impact statements:

••Subsection (1) examines fiscal impact statements to determine whether they were prepared consistently using appropriate methodology. For a sample of six bills, predicted fiscal costs are compared to the estimated actual costs of implementation;

••Subsection (2) examines economic impact statements to determine whether they contained appropriate information on how proposed legislation affected the expenditures of private citizens, businesses, and other non-governmental entities; and

••Subsection (3) outlines a number of difficulties inherent in developing future cost estimates.

B. Process of Requesting and Receiving Fiscal and Economic Impact Statements

1. Overview of Process. The practice of requesting and developing fiscal and economic impact statements varies depending upon who initiates the legislation, the substance of the legislation, and the scheduling of bill introduction, public hearing(s), and final action. This section reviews the procedures established to obtain fiscal and economic impact statements, and the record of providing impact statements for 1984 bills.

The Plain Language Drafting Manual specifies that fiscal and economic statements are to be included in the legislative request report, which must accompany all bills at the time of introduction. The production of the legislative request report is coordinated by the Council's Office of Legislative Counsel (OLC) for bills initiated by Councilmembers, and coordinated by the Offices of the County Executive and County Attorney for bills initiated by the Executive branch. There are no formal standards and guidelines for developing fiscal or economic impact statements.

For each bill initiated by a Councilmember, OLC sends a written request for a fiscal impact statement to the Director of the Office of Management and Budget (OMB), and a written request for an economic impact statement to the Director of the Office of Economic Development (OED). Due to OLC's policy of not circulating draft bills prior to introduction, the requests for impact statements are almost always submitted to the Executive branch departments after the bill is introduced. OLC's standard memo provides OMB and OED with the version of the bill that is introduced, and requests that the impact statements be provided "as soon as possible." Although OLC has no formal tracking system for following-up on requests for impact statements, OLC staff often calls to remind OMB and OED about submitting impact statements before a bill is scheduled for action.

Once a fiscal or economic impact statement is received from OMB or OED, it automatically becomes part of the Council's working packet on the bill. The Council's budget staff does not routinely review and comment upon the substance of each impact statement, and only rarely is an impact statement revised to reflect amendments made during the legislative process.

Fiscal and economic impact statements for bills initiated by the Executive branch are most often incorporated into the cover memo transmitting the legislation from the County Executive to the Council President. These impact statements are usually developed by the department or office most involved with the legislation. Although OLC staff does not review these impact statements for content, the usual operating practice is not to schedule an Executive sponsored bill for introduction unless it has a completed legislative request report, including fiscal and economic impact statements.

Staff Resources. Personnel from several departments are involved in developing fiscal and economic impact statements, but only OMB and OED have staff specifically assigned to the task. The expectation that the business community would provide formal economic impact statements has not materialized; representatives from the private sector often, however, have included their point of view about the financial impact of legislation as part of public hearing testimony.

During the past several years, OMB has assigned a Program Assistant half-time ($12-15,000 in staff time) the responsibility of developing all fiscal impact statements for Council initiated bills. Since 1980, the job of developing fiscal impact statements has been rotated among four different Program Assistants. Developing fiscal impacts is seen as a training opportunity for entry level budget analysts because it requires the analyst to become familiar with many aspects of County government and to acquire experience with cost analysis.

Within OED, the responsibility for developing economic impact statements for Council initiated bills has been assigned to a Senior Planner. The Senior Planner who developed most of the economic impact statements during the past several years estimated spending five percent of the time on economic impact statements (approximately $2,000 in staff time).

2. Record of 1984 Bills. All bills introduced during the 1984 legislative session were reviewed to see when and if fiscal and economic impact statements were prepared and provided to the Council. Sixty-five bills were introduced in 1984; 52 proposed changes to the Code, nine authorized the sale of bonds to cover the appropriation for the approved FY 85 Capital Improvements Program, and four authorized individual capital improvement projects pursuant to Section 302 of the Charter.

Because bond and special capital improvement project bills are themselves fiscal and economic impact proposals, OLO only focused on the 52 bills in 1984 that proposed programmatic and policy changes to the Code. Of these 52 bills:

- 32 bills (62%) were initiated by Councilmembers, 19 bills (37%) initiated by the Executive, and one bill was initiated by the Maryland-National Capital Park and Planning Commission;

- 17 bills (33%) were introduced as emergency legislation;

- 36 bills (69%) have been enacted and the remainder either are still pending or were defeated.

Table I shows the status of the fiscal and economic impact statements for the 52 bills introduced in 1984 that proposed amendments to the Code. The record shows that the Council has not refused to consider legislation on the grounds that it lacked a fiscal and/or economic impact statement. Specifically, the data indicate that:

- At the time of bill introduction, less than one-half (47%) of Executive branch initiated bills were accompanied by both fiscal and economic impact statements; an additional 26% had a fiscal, but not an economic impact statement;

- For Council initiated bills, only 13% had both fiscal and economic impact statements at the time of introduction; an additional 28% received impact statements after the bill's introduction, but before the time of the public hearing or Council worksession;

- Almost one-half (47%) of bills initiated by Councilmembers and 21% of bills initiated by the Executive never received fiscal and economic impact statements; and

- Fiscal and economic impact statements were less often provided for bills introduced as emergency legislation: 59% of the 17 emergency bills never received a fiscal or economic impact statement.

In 1984, approximately 70% of all fiscal impact statements for bills initiated by Councilmembers were prepared by the Office of Management and Budget; the remainder were prepared by the bill's sponsor except one which was prepared by the Historic Preservation Commission (Bill #1-84).

Only 20% of the fiscal impact statements prepared by OMB were provided to the Council at the time of bill introduction; 50% arrived at or before the public hearing on the bill, and 30% arrived after the public hearing but before the Council took final action.

In 1984, 69% of all economic impact statements for bills initiated by Councilmembers were prepared by the Office of Economic Development and the remainder by the bills' sponsor. Twenty-two percent of the economic impact statements prepared by OED were provided to the Council at the time of bill introduction; the majority of these impact statements arrived at

Table I

Record of Fiscal and Economic Impact Statements for 1984 Bills Amending County Code[a)]

	Total Number of Bills	FIS & EIS at Intro.	Only FIS at Intro.	Only EIS at Intro.	FIS and/or EIS provided after Intro but Before Final Action	No FIS or EIS Provided
All Bills	52	14 (27%)	7 (13%)	2 (4%)	10 (19%)	19 (37%)
Bills Initiated by Councilmembers	32	4 (13%)	2 (6%)	2 (6%)	9 (28%)	15 (47%)
Bills Initiated by County Executive	19	9 (47%)	5 (26%)	--	1 (5%)	4 (21%)
Bills Initiated by Planning Board	1	1 (100%)	--	--	--	--
Bills Introduced with Emergency Status	17	6 (35%)	--	--	1 (6%)	10 (59%)
Enacted Bills	36	9 (25%)	7 (19%)	--	9 (25%)	11 (31%)

a) FIS = Fiscal Impact Statement
EIS = Economic Impact Statement
For purposes of this table, the quality of individual fiscal and economic impact statement was not considered; if the legislative file of a bill contained any type of fiscal and/or economic impact statement, either as part of the legislative request report, or as a separate memorandum then the bill was categorized as having an impact statement.

or before the bill's public hearing and the remainder between the public hearing and final action.

C. Substance of Fiscal and Economic Impact Statements

1. Substance of 1984 Fiscal Impact Statements

a. Overview of Substance. The quality of fiscal impact statements prepared in 1984 varied greatly in terms of approach and complexity. Fiscal impact statements ranged from a few words incorporated into the legislative request report to a lengthy memoranda submitted as a separate document to the Council. Of the 27 fiscal impact statements prepared, (15 for Council initiated bills, 11 for Executive branch initiated bills, and one for the Maryland-National Capital Park and Planning Commission initiated bill) approximately:

- One-third simply stated that the bill would have either "no fiscal impact" or "minimal fiscal impact," and offered no explanation as to how this conclusion was reached;

- One-third offered at least some reasoning behind a conclusion of minimal or no measurable fiscal impact; and

- One-third outlined analytic assumptions and actually quantified an estimated fiscal impact on the County's operating and/or capital budget.

None of the fiscal impact statements prepared in 1984 addressed all of the issues outlined in the original 1977 Council resolution establishing the fiscal impact requirement; few differentiated between direct, indirect, and capital costs; and only a handful commented upon the future fiscal impact of the legislation. Council minutes indicated that the substance of fiscal impact statements was sometimes debated at length and sometimes not discussed at all.

The most informative impact statements prepared for 1984 bills were those that:

- Made necessary assumptions about the implementation of the bill and clearly outlined these assumptions as part of the fiscal impact statement;

- Differentiated the impact on the County's capital vs. operating budget, and addressed the question of fiscal impact in future years;

- Quantified the net cost to the County providing estimates of both expenditures and revenues, and offered a range of possible impacts in cases where relevant costs and revenues could vary significantly; and/or

- Provided a rationale if it was concluded that a bill would have little or no fiscal impact.

The less informative fiscal impact statements:

•Failed to make necessary assumptions about the implementation of a bill, or made the assumptions without clearly explaining them;

•Contained descriptive phrases such as "positive fiscal impact" or "no consequential fiscal impact" without quantifying what was meant by these terms;

•Neglected to consider possible impact on the revenue side, or failed to differentiate between the capital vs. operating budget impacts;

•Failed to consider impacts in future years as well as the current year; and/or

•Were simply not written clearly and concisely.

b. Accuracy of Forecast. One measure of the utility of fiscal impact statements is how accurately they forecast the County's actual cost of implementation. While recognizing the difficulty of isolating the exact cost of implementing a bill, the fiscal impact of the following 1984 bills was estimated based upon budget documents and conversations with Executive branch staff:

•Bill #5-84, Council Commission on the Humanities, established a new citizen commission;

•Bill #16-84, Cat Licensing, established a new County program with associated fees;

•Bill #21-84, Hotel/Motel Tax Definition, clarified definitions concerning who should be subject to a tax;

•Bill #35-84, Ad Valorem Parking Tax-First Hour Parking, deleted an unenforced provision of the Code;

•Bill #45-84, Stormwater Management, expanded an existing program with newly imposed State requirements; and

•Bill #57-84, Handicapped Persons Access to Swimming Pools, imposed an accessibility requirement on selected public and private pools.

Overall, five of the six fiscal impact statements offered a quantitative estimate of the legislation's operating and/or capital budget impact. Two out of these five underestimated the marginal costs incurred by the County in FY 85 and FY 86; and a third impact statement almost certainly has underestimated what it will cost the County in the long run. One impact statement correctly predicted that the bill would have no fiscal impact and one estimated a level of fiscal impact that cannot be readily verified for accuracy.

The impact statements for Bills #16-84, Cat Licensing, and Bill #45-84, Stormwater Management, were the only two that outlined assumptions about implementation and quantified estimates of expected increases in personnel and operating costs. Both impact statements still underestimated what it has actually cost the County to implement these programs; the first overestimated fee revenue, and the second overestimated the level of non-County funds to be received by approximately $50,000.

Bill #16-84. The fiscal impact statement for Bill #16-84, Cat Licensing, relied upon the County's experience with dog licensing to predict direct personnel and operating costs and revenue from fees for licenses and civil fines. The impact statement concluded that the proposed legislation would generate approximately $150,000 in revenues annually. Although using the County's record of dog licensing as a basis for predicting the fiscal impact for cat licensing appears reasonable, it resulted in an impact statement that underestimated the personnel and operating costs needed to operate the program, and overestimated the revenue generated. After almost two years of experience, the cat licensing program is self-supporting, but does not generate the excess funds expected.

Bill #45-84. The fiscal impact statement for Bill #45-84, Stormwater Management, quite accurately forecast that five new positions would be created to implement the expanded stormwater management program. The net FY 85 cost to the County was overestimated because the new employees were not hired until FY 86. The net cost to the County for FY 86 was underestimated by approximately $50,000 because the County received less State grant-in-aid money than expected; and the future costs borne by the County may be even higher. Overall, the impact statement did a reasonable job of predicting what it would take to implement Bill #45-84; it serves, however, as an example of how the bottom line impact of a program modification can change substantially depending upon the availability of non-County funds.

Bill #57-84. Because the fiscal impact statement for Bill #57-84, Handicapped Persons Access to Public Swimming Pools, was produced before the Council worked out the details of the bill, the impact statement made some necessary assumptions about the implementation of the bill, i.e., which pools it would apply to, what was meant by "access." The impact statement was instructive because it provided ranges of potential costs for different policy options, and concluded that the County's cost for equipment and installation would total $75,000 - $167,700, depending upon the type of equipment installed in each of 13 County pools.

Although the fiscal impact statement for Bill #57-84 used reasonable data to price out equipment options, the County's implementation costs will exceed those predicted. The FY 86 Capital Improvements Program (CIP) included $30,000 for making the County pools accessible to the handicapped; the FY 87 CIP includes more than $150,000 for four more pools (three County operated and one BOE operated) accessible to the handicapped. With six pools to go, the County has already committed $180,000 towards implementing Bill #57-84. In addition to this capital cost, the County has incurred direct personnel costs for planning and managing the pool renovation projects, and for enforcing the provisions of Bill #57-84 applying to 30 privately owned public pools. Although the total cost to the County is not yet known, it will almost certainly exceed the 1984 projection.

Bill #35-84. The fiscal impact for Bill #35-84, Ad Valorem Tax-First Hour Parking, is an example of where "no fiscal impact" was predicted correctly, but not explained. It is arguable that a no impact conclusion was self-evident from the legislation, which proposed to delete an unenforced code provision; and conversations with the Chief of the Division of Parking confirmed that the passage of Bill #35-84 has had no effect on the workload of the Division and no impact on the level of tax revenue generated. However, a fiscal impact statement should always include the rationale behind its conclusion, even if the conclusion is one of no fiscal impact.

Bill #21-84. The impact statement for Bill #21-84, Hotel/Motel Tax Definition, reads only, "Potential loss of $200,000 per year in taxes." While providing an estimate of impact, the statement offered no rationale as to what the $200,000 was based upon. Conversations with staff involved with Bill #21-84 indicated that the $200,000 represented 10% of the total room rental-transient taxes collected in FY 84, the Auditing Section's best "guess" of the loss in tax revenue if the bill did not pass. This calculation is the opposite of most impact statements which estimate what will occur if the bill is enacted. According to the Auditing Section, the accuracy of the $200,000 estimate cannot now be verified without undertaking a special audit of all room rental-transient taxes collected.

Bill #5-84. The fiscal impact statement for Bill #5-84, Council Commission on the Humanities, used descriptive phrases instead of quantitative estimates to describe a budget impact. In addition to being impossible to measure later, a magnitude of impact considered "minimal" to one reader may be quite significant to another.

The conclusion of "no consequential fiscal impact" did not anticipate the activity level of the new commission, and the resulting personnel and operating expenses. Since January 1985, it has consumed about 20% of a Legislative Analyst's time ($8,000) and 10% of an Administrative Aide's time ($2,400) to provide staff support for the Commission. In FY 86, the Commission also requested and received $15,000 in operating funds. Recognizing the larger than expected workload for FY 87, the Council approved $15,000 to hire a half-time analyst to provide staff work for the Commission plus another $15,450 in operating expenses. The ongoing costs of supporting the Humanities Commission will continue at least until July 1989, the Commission's legislated sunset date.

Summary. Of the six fiscal impact statements reviewed, the only one that accurately forecast the implementation cost was one that predicted "no fiscal impact" for a bill proposing to repeal an unenforced law. The other impact statements either failed to anticipate the activity level of a new function, underestimated personnel and operating costs of a new or expanded program, or overestimated the revenue that would be generated through fees or received from a non-County source. Finally, one impact statement estimated a budget impact that cannot be readily verified for accuracy.

2. Substance of 1984 Economic Impact Statements

a. Overview. All of the economic impact statements prepared for 1984 bills were short and descriptive. None provided the type of information outlined in the Council resolution that first imposed the economic impact requirement; that is, "...an estimate of the costs and benefits likely to result for private organizations and individuals and a consideration of other economic consequences."

Of the economic impact statements prepared for 1984 bills:

- Eight identified only the types of individuals (i.e. developers, animal owners, citizen groups) who might face an increased or reduced cost burden if the proposed bill became law;

- Three simply observed that the legislation would have a "positive economic impact" because enactment would enhance the "quality of life" in the County;

- Seven stated the legislation would have "minimal" or "no" economic impact, but did not offer any rationale for this conclusion;

- Three concluded that the request for an economic impact statement was "not applicable"; and

- One simply restated the basic purpose of the legislation.

b. Discussion. The record is unclear as to whether the Council intended a true cost-benefit analysis to be conducted for every proposed bill. Nonetheless, it appears that, at least for 1984 bills, providing general non-quantitative observations was interpreted as fulfilling the economic impact statement requirement.

A closer look at the types of bills introduced in 1984 illustrates that for most bills concerning fees and taxes, bills that created or expanded a County program, and bills that proposed a policy change to a government service, purely descriptive economic impact statements failed to provide the type of information the Council appeared interested in when they first imposed the economic impact requirement.

By definition, a proposed change to a County tax will have both an economic and fiscal impact. The revenue collected is a "cost" to someone outside the County government. In 1984, none of the six tax bills enacted had an economic impact statement that quantified the impact of the proposed tax change; in several cases (for example, Bill #7-84, Transfer Tax Revision, Bill #21-84, Hotel/Motel Tax) the fiscal impact statement included some type of revenue calculation, which by implication, is at least part of the economic impact of a bill.

The largest group of enacted 1984 bills established or expanded County programs. These bills ranged in scope and complexity from the licensing of cats (Bill #16-84) to setting up the Ride Sharing Program (Bill #19-84) to expanding the County's control over stormwater management (Bill #45-84). This group of bills did have a measurable effect upon private citizens and County business. However, specific information about the magnitude of the impact was not provided in the economic impact statements. The record indicates, however, that projections of impact, (not necessarily objective) are often provided by the affected interest groups during the public hearing and/or Council worksession.

At least seven bills enacted in 1984 altered some aspect of an existing government function, i.e., Bill #22-84 expanded the authority of the Animal Matters Hearing Board, Bill #40-84 temporarily changed the approval process for permit parking areas. Because these government functions affect the public, a change in how the function operates will almost always have an economic impact. In 1984, the economic impact statements for these bills were either absent or were limited to identifying the group of citizens who might be affected, i.e., pet owners, citizens applying for a permit parking area.

The economic impact concept is not as relevant for bills dealing primarily with internal County government procedures. Bills such as #10-84, Technical Corrections to Executive Regulations, and Bill #36-84, Legalization of the County Code, had little or no direct effect upon actions outside of County government.

Another group of 1984 bills affected County personnel and benefit policies. Legislation such as Bill #54-84, Disability Retirement Revisions, and Bill #42-84, LOSAP, had a direct income impact upon discrete groups of individuals, County employees and volunteer firefighters. In these cases, a thorough fiscal impact statement would supply the same basic information as an economic impact statement.

Finally, providing a comprehensive economic impact statememt for many bills would be difficult and involve assigning dollar values to non-monetary or intangible effects. For example, it would be challenging and controversial to quantify what the Commission on the Humanities will add to the the community, or to quantify the benefit of requiring public hearings before establishing parking permit areas.

3. Why are Fiscal and Economic Impact Statements so Difficult to Develop? As discussed above, fiscal and economic impact statements have varied considerably in terms of approach and complexity. The bills examined illustrate how fiscal and economic impact statements cannot be relied upon to predict actual implementation costs. The overall quality of impact statements would likely improve if they were prepared according to established standards and guidelines. However, even using a scholarly approach will not guarantee precise cost estimates because of the inherent difficulties in predicting future costs.

The above review of 1984 bills illustrates the following problems often confronted when trying to assess the incremental fiscal and economic impact of proposed legislation:

• Details of implementation not included in bill. When a bill is first introduced, it is not uncommon for the details of its implementation to remain undecided. For example, the draft of Bill #59-84, Parking Unregistered Vehicles on Residential Property, sent to the

Executive branch for impact statements did not specify which department would be responsible for enforcement or whether fees could be collected for parking permits; Bill #5-84, Council Commission on the Humanities, did not outline the frequency of Commission meetings or the level of staff support the Commission would require.

•Calculation of impact depends upon unknown reaction of persons outside of the County Government. For many bills, the cost to the County will be determined largely by how a new program or policy is received by County citizens and/or the business community. For example, the fiscal impact of tax credit legislation such as Bill #1-84, Tax Credit for Historic Preservation, depends upon the extent individuals decide to take advantage of a government subsidy.

•Impact of bill cannot be isolated. In some cases, the marginal cost of a bill is difficult to calculate because its impact cannot easily be isolated. For example, Bill #13-84 proposed the merger of the Office of Landlord Tenant Affairs (OLTA) and the Department of Housing and Community Development (DHCD). The net fiscal impact of Bill #13-84 was difficult to calculate because DHCD intended to simultaneously implement several additional operational changes that did not require legislative action.

•Bill may be changed significantly during the legislative process. The usual practice is to receive an impact statement on the version of a bill as it is first introduced for Council consideration. Sometimes a bill is amended during the legislative process in ways that make the initial impact assessments no longer adequate.

•Bill has no fiscal and/or economic impact. Sometimes a bill proposes a change to an internal County government policy or procedure that may affect the taxpayers-at-large, but not any discrete sub-group of citizens or businesses. Othertimes the implementation of a proposed policy or procedure may alter how something is done, but not measurably increase or decrease the level of resources required to do it. Examples of these in 1984 were Bill #18-84, which specified the method for computing required signatures for a referendum petition; and Bill #11-84, which amended the definition of "agency" in the County's Ethics law.

V. CONCLUSIONS

A. Conclusions on the PROCESS of Developing Fiscal and Economic Impact Statements.

1. The requirement for fiscal and economic impact statements was adopted by Resolution of the Council. Originally in the Council Rules of Procedure and currently part of the Plain Language Drafting Manual, the fiscal and economic impact requirement is not law, but rather one of the standards established for preparation of Council documents. The record indicates that the Council has not refused to consider legislation that lacks a fiscal and/or economic impact statement.

2. Fiscal and economic impact statements are not consistently provided for all legislation considered by the Council. When and if impact statements are provided appears to vary depending upon who initiates the legislation, the substance of the legislation, and the scheduling of bill introduction, public hearings, and final action.

3. The responsibility for preparing fiscal and economic impact statements is not concentrated in one place. Although the Office of Management and Budget prepares a majority of the fiscal impact statements and the Office of Economic Development prepares a majority of the economic impact statements for Council initiated bills, impact statements for bills requested by the Executive and other agencies are prepared in many different places, often by the department(s) most involved with the proposed legislation.

4. The current requirement for impact statements at the time of introduction is not realistic and has not been consistently enforced. Impact statements for Council initiated bills cannot be prepared by OMB before a bill is introduced because of the Office of Legislative Counsel's policy of holding legislation confidential until it is introduced during formal legislative session.

5. Fiscal and economic impact statements are rarely revised to reflect changes made to bills during the legislative process.

6. There is no systematic procedure established for comparing fiscal and economic impact estimates to actual implementation costs. This lack of follow-up accountability has led to the perception that fiscal and economic impact statements are only part of the legislative debate and not something to be used after a bill is enacted.

B. Conclusions on the SUBSTANCE of Fiscal and Economic Impact Statements

1. A precise forecast of what a legislative proposal will cost to implement can be difficult to develop because of the number of unknown variables. Nonetheless, especially in times of fiscal restraint, a systematic process for providing decision-makers with reasonable estimates of future costs and revenues can facilitate decisions that are in the best long-term public interest.

2. Not every piece of legislation routinely requires both fiscal and economic impact statements. The record indicates that the fiscal and/or economic impact of proposed legislation is sometimes a high priority issue and other times not a key factor in the Council's decision-making process. In some cases, the fiscal and/or economic impact may be evident from the legislation itself; in others, the potential costs and benefits may be intangible and not easily measured objectively.

3. The presentation of fiscal and economic impact information to the Council has varied greatly. In 1984, the format of impact statements ranged from several words on the legislative request report to lengthy memoranda sent to the Council under separate cover.

4. The substance of fiscal impact statements has varied considerably in terms of approach and complexity. None of the fiscal impact statements prepared for 1984 bills fully addressed all of the issues outlined in the original 1977 Council resolution that established the fiscal impact requirement. Only one-third outlined analytic assumptions and actually quantified an estimated fiscal impact on the County budget; only a handful commented upon both the current and future fiscal impact; and few differentiated between direct, indirect, and capital expenditures.

5. All of the 1984 economic impact statements were short and descriptive. None provided the type of information described in the Council resolution that first imposed the economic impact requirement; that is, "an estimate of both the costs and benefits likely for private organization and individuals and a consideration of other economic consequences."

6. Council staff does not routinely review the substance of fiscal impact statements. Except for occasional involvement, the Council's budget analysts rarely comment upon the fiscal implications of proposed legislation.

VI. RECOMMENDATIONS

1. The practice of developing fiscal and economic impact statements should be improved. Unless impact statements evolve into a reliable and timely source of information, preparing them is an ineffective use of staff time and effort.

2. Because predicting future costs is such an imperfect science, impact statements should not be expected to forecast exact expenditures and revenues. Instead, impact statements should be relied upon to provide estimates of future costs based upon reasonable and consistent assumptions. Whenever appropriate, the impact analysis should include information about the range of possible cost and revenue effects.

3. One department should be responsible for preparing impact statements that include basic information about both the fiscal and economic consequences of proposals under Council consideration. In most cases, the analyst who prepares the fiscal impact statement can also prepare comments about the potential economic impact. In special cases, where significant and complicated economic consequences are anticipated, an economist with experience in cost-benefit analysis could be hired to supplement the internal staff analysis.

4. Given the current allocation of responsibilities, the most appropriate department to assume responsibility for fiscal and economic impact statements is either the County Council Office or the Office of Management and Budget. Both of these departments have staff with appropriate analytic skills and access to necessary data.

•Advantages of Council Office Staff: Assigning the task of developing fiscal impact statements to the Council staff would follow the practice of many jurisdictions, including the U.S. Congress and the Maryland General Assembly where, by law, the similar responsibility of providing cost estimates is assigned to the legislative branch. Realistically, the physical proximity of the Council staff and the ability of Councilmembers to readily request more detailed or revised cost estimates from their own staff would likely improve the timeliness and accuracy of fiscal impact statements. Moreover, the Council staff could ensure that the actual fiscal impact of enacted legislation is discussed as part of the Council's budget process.

- Advantages of OMB staff: Alternatively, OMB has already begun building an expertise in cost analysis. OMB currently prepares fiscal impact statements for a majority of Council initiated bills and selected State legislation. OMB staff interviewed believe that they are in a good position to obtain the necessary information and develop objective cost estimates for proposed legislation. Moreover, OMB already allocates staff resources to developing fiscal impact statements.

5. A standard reporting format should be followed for all impact statements. For example, fiscal impacts should include multi-year operating and capital budget impact estimates and an explanation of what the estimates are based upon. If it is determined that a bill will not have a fiscal impact, then an explanation of this conclusion should be provided. At Exhibit A is a sample of the format followed by the Congressional Budget Office in preparing what is known as their basic "ten point estimate."

6. The Director of the Office of Management and Budget and Council Staff Director should agree upon a set of guidelines to be followed when performing impact analyses. The guidelines should include assumptions concerning inflation, interest rates, and operating expenses. At Exhibit B are the 1986 guidelines developed by the Maryland General Assembly's Department of Fiscal Services.

7. The Plain Language Drafting Manual should be amended to set a more realistic deadline for submission of requested fiscal and economic impact statements. Recognizing that the Office of Legislative Counsel's policy is to keep legislation confidential prior to introduction, a deadline, such as when the Council sets the public hearing for a bill or the public hearing itself, should be established and enforced.

8. To allow limited staff resources to concentrate upon developing higher quality analyses, fiscal and economic impact statements should no longer be a routine requirement for all legislation. Instead, fiscal and/or economic impact statements should be requested only for selected bills where the marginal cost to the County or to a subgroup of the community is of particular concern. One approach for selecting which legislation should receive a fiscal and/or economic impact statement is for the Council Staff Director to recommend when a bill warrants one. The Council Staff Director's recommendation could be incorporated into the legislative request report and approved or changed by the Council at the time of bill introduction.

9. Once an improved system for developing fiscal and economic impact statements for legislation is in place, the Council should consider requesting impact analyses for other selected items under Council consideration such as Resolutions or land use decisions that have significant potential dollar effects.

VII. Office/Department Comments

A draft of this report was circulated to appropriate Executive branch staff in July, 1986. Comments were received from the Office of the Chief Administrative Officer, the Office of Management and Budget, the County Attorney, and the Office of Economic Development and are included in their entirety starting on page 20.

Montgomery County Government

ROCKVILLE, MARYLAND 20850

MEMORANDUM

July 23, 1986

TO: Andrew Mansinne, Director, Office of Legislative Oversight

FROM: Robert K. Kendal, Assistant Chief Administrative Officer RKK

SUBJECT: OLO 85-5: An Evaluation of Fiscal and Economic Impact Statements

We have reviewed draft report #85-5, An Evaluation of Fiscal and Economic Impact Statements, and, as is so frequently the case, we find it to be a very useful assessment of an important subject. Attached are specific comments from OMB, OED, and the Office of the County Attorney. Several of the themes in these memoranda are consistent with each other. For example, our experience suggests that impact statements should be developed on fewer, rather than more, issues before the Council, concentrating attention on the critical few subjects which the Council judges to have some clearly significant potential impact. On other subjects, we are providing a diversity of views. Who should do the economic impact statements, if they are to be continued, is an example. OED could continue to do them; OMB could take on the responsibility, a network of outside "consultants" such as the Chambers of Commerce might also be brought into help with such analyses.

I offer the following additional observations:

- Timing: If impact statements are done early in the legislative process, the legislation can in fact be shaped according to the conclusions drawn. At the same time, an argument can be made that impact statements should be delayed until public input has been received at a hearing and amendments have been developed.

- Format: Guidelines for format should be informal since the analysis on any particular bill may need to be treated differently in presentation from analysis on another bill.

- Numerical precision: We should expect of ourselves a range of values in these impact statements rather than a high level of detail given the uncertainties and variables that are present in any projection of the future.

Thank you again for inviting our comments on this report.

RKK:psa

cc: Lewis T. Roberts
Al McArthur
Jacqueline Rogers
Bud Eaton
Paul McGuckian

M E M O R A N D U M

July 22, 1986

TO: Robert K. Kendal
Assistant Chief Administrative Officer

FROM: Jacqueline H. Rogers, Director
Office of Management and Budget

SUBJECT: Office of Legislative Oversight Report #85-5, An Evaluation of Fiscal and Economic Impact Statements

I have reviewed the draft report #85-5, An Evaluation of Fiscal and Economic Impact Statements, prepared by the Office of Legislative Oversight. I consider it to be an excellent report. The way it is organized provides valuable information in a format that is easy to follow. The report makes conclusions that I generally agree with. I have some specific comments on aspects of the legislative process as it relates to fiscal and economic impact statements.

1. The departments prepare fiscal impact statements for bills that are initiated by the County Executive. OMB has not had an active role in this process. If OMB coordinated the preparation of these statements, a system of internal checks and balances would be in place for bills initiated by the County Executive. In addition, the fiscal impact statements would be consistent for bills initiated by both the County Council and the County Executive.

2. There is a serious problem in the practice of the Office of Legislative Counsel not to circulate draft bills prior to introduction, i.e. bills initiated by the County Council. This practice is unnecessary and, in fact, is counterproductive. Let me explain.

Before the Office of Legislative Counsel was formed, bills were routinely circulated throughout the Executive Branch prior to introduction. The departments were given an opportunity to comment on the bill before it reached the formal legislative schedule of public hearing, worksession, and final action. A collegial situation existed in which input from the County Council and the Executive Branch determined the provisions of the bill that were formally introduced. The development of the fiscal impact statement was also done prior to introduction. Now the situation is adversarial. The bill is placed before the Executive and the public simultaneously. The Executive has only the period from introduction to final action to comment on the bill and provide fiscal and economic impact statements. If the Executive believes that adjustments to the legislation are warranted, the Executive's proposals to do so can be perceived as critical of the work done to date. The difficulties of the current system point out that circulating the bill to the Executive Branch prior to introduction was a better system.

3. The report recommends that fiscal and economic impact statements be prepared for select bills only. I support this recommendation and I would even say that I question the worth of most economic impact statements. The economic impact statements I have reviewed in the past have not provided substantative information on how the bill would affect the local economy. I doubt that a thorough economic analysis of a bill, which would consume a large amount of staff time, would strongly benefit the legislative decision process. If a bill has a large and apparent economic impact, that impact could be noted in the fiscal impact statement.

4. OMB has the expertise to prepare fiscal impact statements and will gladly provide this service to any party requesting that it do so.

Over the last year, Jolene Ostler has been the OMB staff member assigned to fiscal impact statements. I have attached her comments on the report.

JHR:jno/5253A

MEMORANDUM

July 21, 1986

TO: Jacqueline H. Rogers, Director
Office of Management and Budget

VIA: Peter Hutchinson, Budgeting and Planning Program Manager

FROM: Jolene N. Ostler, Program Assistant JNO

SUBJECT: Office of Legislative Oversight Report #85-5, An Evaluation of Fiscal and Economic Impact Statements

I have reviewed OLO's report. Overall I found it to be an informative review of the subject of FISs and EISs. My comments follow and are divided into the report section's of "process" and "content."

Process

1. The departments have been writing fiscal statements for County Executive initiated bills. On one occasion, a department consulted me concerning a bill it was sending to the Council. I talked to a few analysts who said that they have not ever been contacted by the departments about fiscal statements on bills the departments were initiating. As a result of a lack of OMB involvement, the statements are usually cursory. If OMB had a formal role in working with the departments on these statements, the work product would be more consistent with that which OMB produces for Council initiated bills.

2. Fiscal impact statements are made on a bill as introduced. If the Office of Legislative Counsel provides OMB with written amendments, those amendments are also analyzed. This system presents a reasonable workload for the responsible OMB staff person. In that position, I felt a need to have a standardized version of the bill to work from. This is because I was already working with many assumptions on implementation and needed to have the language of the bill concrete. Occassionally, I was given verbal information about a likely amendment. My policy was to require written requests of any amendment the Council wanted a FIS for. It facilitated the preparation of the FIS to have amendments written out, carrying the name of the council member sponsor. To analyze amendments proposed during the worksession, it would be necessary for an OMB staff member to be present at the worksession.

3. The deadline date for providing the Council with a FIS should be the first committee or Council worksession. The time between introduction and the public hearing is often too short a period to allow for a thorough analysis.

4. OLO's report should include a statistical record of FIS for 1985 and the first part of 1986. I am not sure if 1984 accurately reflects the current status of FISs.

Content

1. Guidelines for preparing the FIS and a standardized format for reporting the FIS would provide consistency that is now lacking.

2. The section "Accuracy of Forecast" has an underlying assumption that one should expect the FIS to accurately forecast implementation costs. While an occassional exercise to compare the FIS with the implementation costs could be useful, the major purpose I see for the FIS is to provide a range of costs for what is reasonable to assume at the particular point in time it was prepared. This analysis is made when much of the information on implementation is not yet available. The FIS can even point out unintended results or weaknesses in the bill by taking a literal interpretation of the bill as then written. Later, the bill takes other forms prior to enactment. Therefore, it is very unlikely the FIS will match with the actual costs of implementation of legislation.

5248A

MEMORANDUM

July 16, 1986

TO: Robert K. Kendal
Assistant Chief Administrative Officer

FROM: Paul A. McGuckian
County Attorney

RE: OLO #85-5, An Evaluation of Fiscal and Economic Impact Statements

Our office has reviewed the draft report from Andrew Mansinne, Jr., Director of the Office of Legislative Oversight (OLO). It was well done, but contained no real surprises. In particular, we have noted that relatively few Council-initiated bills provide impact analyses and that even where there are impact analyses, either from the Council or the Executive, the County Council rarely focuses on the statements provided. The recommendations of our office are as follows:

1. The Executive Branch should coordinate its responsibilities for providing both impact and economic analyses in the Office of Management and Budget.

2. We concur in the recommendation of the OLO that fiscal and economic impact statements should no longer be a routine requirement for legislation. However, we disagree with their conclusion that once an improved system for developing fiscal and economic impact statements for legislation is in place, the Council should consider requesting impact analyses for other selected items under Council consideration, such as Resolutions or land use decisions that have significant potential dollar effects. Given the past pattern of minimal use of such analyses by the Council, we disagree with the suggestion that there should be a projected expansion of the use of these statements.

3. The draft report suggests that there should be unification of responsibilities for preparing Council and executive analyses in either the Council staff or the Office of Management and Budget. We would recommend that the Office of Management and Budget assume this responsibility to prevent the possibility of manipulation of figures inflating or deflating the costs associated with bills. OMB has less of an ax to grind and the analyses they have provided to date are far superior to those few incorporated in Council-sponsored bills.

PAM:JRS:mw
1205S

M E M O R A N D U M

July 16, 1986

TO: Robert K. Kendal, Assist. Chief Administrative Officer

FROM: L. James Eaton, Director
Office of Economic Development

SUBJECT: Office of Legislative Oversight #85-5 - Fiscal and Economic Impact Statements

The OLO report draws some valid conclusions and identifies many of the problems associated with the preparation of the fiscal and economic impact statements developed for County legislation.

The purpose of economic impact statement is to identify the effect of the proposed legislation on the County economy, preferably by quantifying both the costs and benefits associated with this legislation. However, contrary to the fiscal impact analysis on County Government operations, the impact on the economy of the majority of legislation is either marginal, intangible or difficult to isolate, particularly in the limited time frame established by the Council.

Therefore, we strongly support the report's conclusion that the economic impact statement not be a routine requirement. Rather, emphasis should be placed on legislation where the impact is clearly significant, and in those cases provide flexibility to hire experienced profiessionals/conslutants to perform that function. Furthermore, it is imperative that realistic time frames be established to permit an adequate evaluation of the issues involved and the development of solid cost-benefit analysis.

OED is the logical agency in which this responsibility should be vested, particularly assuming that the above identified charges will be implemented. At the last, as the only agency in County Government that has expertise on the dynamics of the local economy, OED must work in partnership with the agency selected to develop the economic impact, to determine the guidelines and identify specific areas of impact on the economy.

LJE:seo

0629i

CONGRESSIONAL BUDGET OFFICE

COST ESTIMATE

April 28, 1986

1. BILL NUMBER: H.R. 2373

2. BILL TITLE: Council on Industrial Competitiveness Act

3. BILL STATUS:

As ordered reported by the House Committee on Banking, Finance and Urban Affairs, April 22, 1986.

4. BILL PURPOSE:

This bill would establish an independent agency to be known as the Council on Industrial Competitiveness. The council would report annually to the Congress on possible changes in federal industrial and trade policy. The bill authorizes the appropriation of $25 million for fiscal year 1987 for the council.

5. ESTIMATED COST TO THE FEDERAL GOVERNMENT:

(by fiscal years, in millions of dollars)

	1987	1988	1989	1990	1991
Estimated Authorization Level	25	26	28	29	31
Estimated Outlays	23	26	28	29	31

The costs of this bill fall within budget function 370.

Basis of Estimate:

CBO assumes that the bill will be enacted and that the full amount authorized will be appropriated for 1987. Because the council would be a continuing rather than a temporary body, the estimate assumes that sufficient amounts will be appropriated in future years to maintain the council's funding at the 1987 level, adjusted for inflation. The estimated outlays are based on historical spending patterns for similar agencies.

6. ESTIMATED COST TO STATE AND LOCAL GOVERNMENTS: None.

7. ESTIMATE COMPARISON: None.

8. PREVIOUS CBO ESTIMATE: None.

9. ESTIMATE PREPARED BY: Jim Hearn (226-2860)

10. ESTIMATE APPROVED BY:

C. G. Nuckols

for James L. Blum
Assistant Director
for Budget Analysis

EXHIBIT "A"

GUIDELINES FOR USE IN ESTIMATING COSTS TO BE

INCLUDED IN FISCAL NOTES FOR THE 1986 SESSION

Salary and Fringe Benefits

Salary

- Compute each new position at Base with a 4% general salary increase for FY 1987.
- Each year thereafter, salaries should be adjusted to reflect a 6% annual increase (FY 1988 through 1991). This represents a 4% per year general salary increase plus an average of 2% per year increase for yearly salary increments.

Fringe Benefits

.26%	Unemployment Insurance
.85%	Workmen's Compensation
7.15%	Social Security/State's Contribution
11.70%	Employees' Retirement System
9.43%	Health Insurance Premium
29.39%	Total

- Round to 30% of salary to compute fringe benefits for FY 1987 and for each year thereafter.

Operating Expenses for FY 1987

Mileage Rate for Personal Automobile - $.19 per mile

Meal Reimbursement

- Breakfast $3.00
- Lunch $3.75
- Dinner $9.25

Rental Space

- Baltimore - $10.31 per square foot
- Annapolis - $9.20 per square foot
- Allow an average of 100 square feet per person

Telephone Cost

- Installation
  $116 per unit for a leased phone
  $924 per unit for a purchased phone
- Operating Cost
  $434 per unit

Office Supplies

- Allow an average of $87 per employee per year.

Office Equipment (New)

- $1,100 to equip an administrative person
- $1,436 to equip a secretarial person

Operating Expenses for FY 1988 - 1991

- Increase each item by 4.5% per year to reflect effects of inflation.

EXHIBIT "B"

ERRATA

Fiscal Note Guidelines

New Programs - First Year Costs

When legislation is introduced that would create a new program at the start of a fiscal year, the cost of the first full year of operation generally should reflect a 90 day start-up delay that can be realistically expected with the inception of most new programs. Expected exceptions would include such one-time first year costs as purchase of office equipment and automobiles.

FISCAL ESTIMATE OF LEGISLATION

TO: Supervising Analyst, Fiscal Note System, Department of Fiscal Services
Maryland General Assembly, 90 State Circle, Room 226, Annapolis, Maryland DATE: ____________

FROM: ____________

BILL/RESOLUTION NUMBER: ____________ COMPANION BILL: ____________ COMMITTEE REFERRAL: ____________

SHORT TITLE: ____________

Prepared by: ____________ Title: ____________ Telephone: ____________

Copy of Agency testimony on bill included: Yes _____ No _____ If no, testimony will be sent by (Date): ____________

* * * * * * * * * * * * * * * * * * *

1. Please describe the effect this legislation will have on your agency. Use additional pages if necessary:

2. Has no fiscal impact on this agency because:

3. Has your agency included a budget request for the activity required by this bill? Yes _____ No _____.

If yes, please indicate the amount requested $____________ and budget code: ____________

FISCAL IMPACT SUMMARY - SHOW DECREASES IN PARENS

4. Will provide an estimated additional revenue increase or (decrease) as follows:

	General Funds	Special Funds	Federal Funds	Local Funds	TOTAL
First Year					
Second Year					
Third Year					
Fourth Year					
Fifth Year					

5. Will require an estimated additional expenditure increase or (decrease) in funds as follows:

	General Funds	Special Funds	Federal Funds	Local Funds	TOTAL
First Year					
Second Year					
Third Year					
Fourth Year					
Fifth Year					

6. Net Effect (TOTAL of 4 and 5):

	General Funds	Special Funds	Federal Funds	Local Funds	TOTAL
First Year					
Second Year					
Third Year					
Fourth Year					
Fifth Year					

FISCAL NOTE DETAIL ON BILL/RESOLUTION NUMBER ___________

Analysis of estimated additional increase or (decrease) in State expenditures:

A. Salaries & Wages (.01 Object) Personnel Classification	First Year	Second Year	Third Year	Fourth Year	Fifth Year
Total .01 Salaries & Wages:					
Fringe Benefits @30% of .01					
Total Salaries, Wages & Fringe Benefits:					
B. Other Operating Expenses: (Object of Expenditure)					
**.02 Tech. & Spec. Fees					
.03 Communications					
.04 Travel					
.05 Food					
.06 Fuel & Utilities					
.07 Automobile Operations					
**.08 Contractual Services					
.09 Supplies					
.10 Equipment-Replacement					
.11 Equipment-Additional					
**.12 Grants, Subsidies, etc.					
.13 Fixed Charges					
.14 Land & Structures					
Total Other Operating Exp.					
Total Estimated Expenditures or Savings (Totals of A & B)					

**Please describe: ___________

8. Local Fiscal Impact - First Year

Many agencies maintain records which indicate the fiscal impact of legislation on the counties and municipalities. If your agency has such information pertaining to the above cited legislation, please indicate the source and include a distribution by political jurisdiction if possible.

9. Comments/Remarks