

THE FEASIBILITY OF PREPARING STATE AND LOCAL COST ESTIMATES:  
A REPORT TO THE HOUSE RULES COMMITTEE ON THE  
STATE AND LOCAL COST ESTIMATE ACT OF 1981

The Congress of the United States  
Congressional Budget Office

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## SECTION I. INTRODUCTION

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The State and Local Cost Estimate Act of 1981, H.R. 1465, would require the Congressional Budget Office (CBO) to estimate the costs that state and local governments would incur in complying with federal legislation. The bill would expand the requirements already established in Section 403 of the Congressional Budget Act, which mandates CBO to estimate the federal costs of proposed legislation. H.R. 1465 would stipulate that CBO prepare such state and local cost estimates for every "significant" bill or resolution reported in the House or the Senate. The bill defines significant either as having an aggregate impact of \$200 million to state and local governments or as having "exceptional fiscal consequences" for a particular region or level of government. The estimates of state and local costs would be included with the estimate of federal costs that CBO currently prepares.

The House Committee on Rules requested that CBO undertake a study of the feasibility of preparing state and local government cost estimates. In its letter of request, the Committee specifically asked CBO to provide a technical analysis of the problems the agency would encounter in implementing the bill and to outline the possible solutions to such problems. The Committee further asked CBO to comment on what state and local estimates should contain and on how such estimates might be prepared—whether by analyses for all 50 states or by sampling methods. Finally, CBO was asked to comment on the definition of "significant" contained in H.R. 1465, and on what other procedures CBO might employ in identifying significant bills.

In developing its response to the Rules Committee request, CBO has reviewed H.R. 1465 and the issues it presents. CBO has discussed the matter with representatives of the Advisory Commission on Intergovernmental Relations (ACIR), the General Accounting Office (GAO), the Office of Management and Budget (OMB), and the Congressional Research Service (CRS), and with various academic analysts. We also explored the question with budget officers in 10 states, and with representatives of major state and local government associations. In addition, CBO reviewed its own experience in analyzing state and local costs (limited to studies of workmens' compensation, hospital cost containment, welfare reform, industrial revenue bonds, and the New York City loan program). CBO's cost analysts also considered the relevant methodological and workload problems; each analyst was asked to review all federal cost estimates prepared during the last three sessions of Congress to identify reported bills with significant state and local costs. The results of these discussions are incorporated in this report and serve as the basis for CBO's cost estimate of H.R. 1465 attached as Appendix A.

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This report first reviews the source of federal costs to state and local governments. It explores the nature of federal directives to state and local governments, the numbers and expected cost implications of these bills, and the distribution of costs among functional areas; it further provides examples of bills that CBO would have to consider. The second section of the report explores the types of information CBO would need to produce estimates of state and local costs; it also identifies the methodological problems with obtaining and using this data. The third section of the report describes the strategy CBO would use in implementing H.R. 1465. This section outlines the procedures CBO would follow in identifying "significant" bills and how we would deal with methodological difficulties. The final section of the report recapitulates CBO's views on the feasibility of developing state and local cost estimates and provides background to our cost estimate of H.R. 1465.

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## SECTION II. SOURCE OF FEDERAL COSTS TO STATE AND LOCAL GOVERNMENTS

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The federal government directs state and local efforts toward federally favored expenditure objectives through two types of requirements: by federal mandates or formal orders, and by conditions. Both mandates and conditions can result in costs to state and local governments. The Congress sometimes attempts to achieve social and economic objectives by passing laws and by incorporating in programs regulations that mandate certain actions and proscribe others. Laws establishing federal assistance programs contain programmatic and procedural conditions for receipt of the funds.

### NUMBER OF BILLS WITH STATE AND LOCAL COSTS

In order to determine the number of bills for which CBO would have to develop estimates of costs to state and local governments, and their distribution among functional areas, and to get a better understanding of the specific legislation involved, an analysis of past CBO cost estimates was conducted. CBO staff reviewed lists of all federal cost estimates prepared for each of the past three sessions of Congress. Bills that had potential state and local impacts of any magnitude were identified and rough estimates of cost magnitude were made.

Table 1 presents the numbers of estimates that would have state and local impacts. Where more than one estimate was done for a bill, it was counted each time on the assumption that reestimates would also be required for state and local fiscal impacts. The figures do not include estimates for either appropriations or tax bills, since federal cost estimates are not prepared for either type of legislation. There is some interest in cost estimates for both of these types of legislation. Data for 1981 are incomplete, both because the session is still underway and because the list of cost estimates is not up-to-date. The 1981 data have also been significantly effected by the breadth of the reconciliation bill enacted in the summer of 1981. Since the survey depended upon analysts memories and because the original reviews did not focus on state and local impacts, the figures may be understated.

TABLE 1. CBO COST ESTIMATES FOR BILLS WITH POTENTIAL STATE AND LOCAL FISCAL IMPACTS

|                              | 1979      | 1980      | 1981      |
|------------------------------|-----------|-----------|-----------|
| State and Local Impact       |           |           |           |
| Less than \$100 million      | 67        | 54        | 28        |
| \$100-\$200 million          | 22        | 16        | 21        |
| \$200 million and above      | 34        | 31        | 21        |
| Exceptional state or local   | <u>20</u> | <u>43</u> | <u>14</u> |
| Total State and Local Impact | 143       | 144       | 84        |
| Total Federal Cost Estimates | 833       | 861       | 308       |

Table 2 shows a percentage comparison for the numbers of cost estimates with state and local fiscal impact. It also gives an average figure over the last three sessions of Congress for each impact grouping.

TABLE 2. CBO ESTIMATES FOR BILLS WITH POTENTIAL STATE AND LOCAL FISCAL IMPACTS AS A PERCENTAGE OF TOTAL FEDERAL COST ESTIMATES

|                              | 1979       | 1980       | 1981       | Average<br>for Three<br>Sessions |
|------------------------------|------------|------------|------------|----------------------------------|
| State and Local Impact       |            |            |            |                                  |
| Less than \$100 million      | 8.1        | 6.3        | 9.1        | 7.4                              |
| \$100-\$200 million          | 2.7        | 1.9        | 6.8        | 4.3                              |
| \$200 million and above      | 4.1        | 3.6        | 6.8        | 4.3                              |
| Exceptional state or local   | <u>2.4</u> | <u>5.0</u> | <u>4.6</u> | <u>3.8</u>                       |
| Total State and Local Impact | 17.2       | 16.7       | 27.3       | 18.5                             |

## FUNCTIONAL DISTRIBUTION

The distribution by budget function of bills with potentially significant state and local costs is shown in Table 3. Any bills that CBO identified as having \$100 million or greater state and local costs was assumed to have potentially significant costs. All such bills would require detailed consideration by CBO.

TABLE 3. DISTRIBUTION BY BUDGET FUNCTION OF COST ESTIMATES  
OF BILLS WITH POTENTIALLY SIGNIFICANT STATE AND  
LOCAL COSTS

|  | 1979      | 1980      | 1981      |
|--|-----------|-----------|-----------|
| National Defense (050)                                       | <u>a/</u> | <u>a/</u> | <u>a/</u> |
| International Affairs (150)                                  | 0         | 0         | 0         |
| General Science, Space<br>and Technology (250)               | 0         | 0         | 0         |
| Energy (270)   | 3         | 7         | 2         |
| Natural Resources<br>and Environment (300)                   | 6         | 22        | 7         |
| Agriculture (350)  |           |           | 2         |
| Commerce and<br>Housing Credit (370)                         | <u>a/</u> | <u>a/</u> | <u>a/</u> |
| Transportation (400)   | 18        | 16        | 11        |
| Community Development (450)                                  | <u>a/</u> | <u>a/</u> | <u>a/</u> |
| Education, Training, Employment<br>and Social Services (500) | 15        | 10        | 12        |
| Health (550)   | 21        | 28        | 8         |
| Income Security (600)  | 8         | 4         | 8         |
| Veterans Benefits and<br>Services (700)                      | 0         | 0         | 0         |
| Administration of Justice (750)                              | 3         | 6         | 0         |
| General Government (800)                                     | <u>a/</u> | <u>a/</u> | 2         |
| General Purpose<br>Fiscal Assistance (850)                   | <u>a/</u> | 0         | 4         |
| Total  | 76        | 94        | 56        |

a/ Less than \$100 million per bill.

As might be expected, a number of functional areas showed no significant direct cost impact on state and local governments--specifically National Defense (050); International Affairs (150); General Science, Space and Technology (250); and Veterans Affairs (700). Defense authorizations sometimes affect state national guard costs, but most defense bills are either totally federal or directed overseas. International affairs legislation was even clearer cut; there were no perceived state or local cost at all. The only bills listed under function 250 were the National Aeronautics and Space Administration (NASA) and the National Science Foundation (NSF) authorizations, neither of which incur any direct state or local costs. Veterans affairs legislation dealing with education and health may affect state grant processes, but they do not result in significant costs.

### Natural Resources

The natural resources legislation appeared to result in a variety of costs to state and local governments. Examples of bills from various natural resource functions are listed below, grouped by type of federal requirement:

- o Exceptional fiscal consequences for a geographic region or particular level of government:
  - Energy--Palo Verde (California) Irrigation District Diversion Dam.
  - Natural resources--Alaska National Interest Conservation Act
  - Transportation--National Capitol Transportation Amendments of 1979 and Rock Island Railroad Transition Act
  - Community Development--The Maine Indian Claims Settlement Act of 1980
- o Significant aggregate costs resulting from federal legislative mandates:
  - Energy--Energy Conservation Act
  - Natural resources and environment--Federal Water Pollution Control Act of 1981 and Clean Water Act Amendment of 1981
  - Community development--Earthquake Hazards Reduction Act of 1977



- o Significant aggregate costs resulting from conditions of federal assistance:
  - Energy—Community and State Energy Planning Assistance Act of 1980
  - Agriculture—Grants to Land Colleges, and National Agricultural Research, Extension and Teaching Policy Amendments of 1981
  - Transportation—Airport and Airway Improvement
  - Community development—Disaster Relief Amendments of 1981

#### Human Resources

In education, manpower and social services, health, and income security, the federal government and state and local governments share many joint programs. The federal government mandates certain activities (for example, education for the handicapped, equal opportunity), establishes certain guidelines within which the states have considerable flexibility (as for Aid to Families with Dependent Children--AFDC--Medicaid), and provides partial or total funding. Changing the guidelines and changing the funding can result in costs or savings to state and local governments. Several examples follow:

- o Changing the mandates
  - Recent unemployment insurance legislation requires the states to alter the determination of eligibility for benefits.
  - Recent AFDC legislation requires certain changes in the determination of AFDC eligibility.
- o Changing the guidelines
  - Federal Medicaid legislation has given the state greater flexibility in reimbursing hospitals.
  - The establishment of an education block grant will give the states greater flexibility in administering education programs.

- o Changing the federal funding

- Previously the states were not required to share in the costs of low-income energy assistance. Recent legislation would require state cost sharing as a condition of participation in the program.
- Recent legislation has altered the federal share of Medicaid costs depending upon the rate of growth of the states Medicaid program.

Each year legislation is considered that would modify many of these programs. Because of the size and nature of the programs, many of these bills would have potentially significant cost impacts on state and local governments.

#### APPROPRIATIONS AND TAX BILLS

In the 97th Congress, first session, both appropriations actions and the tax bill have had potentially significant impacts on state and local budgets. These bills have not traditionally involved federal cost estimates.

Section 403 of the Congressional Budget Act explicitly excludes appropriations bills from CBO's cost estimating responsibilities. Since H.R. 1465 would amend the budget act, it appears that the effects of reductions in appropriations for state and local assistance would not be estimated. Not requiring cost estimates for appropriations legislation could distort the Congress' understanding of the effects of its actions on state and local governments. As a related concern, cost estimates of authorizations may overestimate the actual impact of state and local governments if appropriations levels are below authorization levels.

Tax legislation affects the receipts of state and local governments. Many state governments use federal income tax liability as the base for their income tax systems and lose revenues when federal tax law is liberalized. Most of the effects of federal legislation would not be estimated under H.R. 1465, because they do not result from state and local governments' carrying out or complying with federal legislation.

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### SECTION III. INFORMATION REQUIRED FOR STATE AND LOCAL COST ESTIMATES

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The information CBO would need to develop estimates of state and local costs would vary widely, depending on the nature and language of the requirements in each piece of legislation. To establish what information would be required, the costs to be estimated must first be defined. Three general issues must be resolved:

- o Direct versus indirect costs;
- o Total versus incremental costs, and
- o Mandatory versus voluntary participation.

Each piece of legislation would then have to be reviewed to identify programmatic and procedural directives for the receipt of federal aid and/or legislative mandates prescribing standards of state and local performance. This section explores the general issues in the definition of the costs, then describes the types of information required, and finally considers some of the limitations in the data available.

#### DIRECT VERSUS INDIRECT COSTS

In a report on S. 43, the companion bill to H.R. 1465, the Senate Committee on Governmental Affairs stated that "CBO is not expected to predict remote or speculative effects of legislation on costs of state and local governments." The report further stated that CBO would not be expected to estimate "the costs of legislation which influences changing economic conditions and thereby affects the revenues of state and local governments." Both of these observations confirm CBO's practice in developing cost estimates for federal costs--that estimates cover only budget authority and outlays, not indirect costs. In estimating state and local costs, CBO would define costs only as direct budgetary ones, not indirect ones. The focus on direct costs would establish state and local budgetary data as the primary type of information needed.

## TOTAL VERSUS INCREMENTAL COSTS

A second issue in defining the cost of a federal requirement would be to distinguish the incremental cost resulting from a federal action. To identify an incremental cost, one must distinguish costs that would have occurred anyway. The difficulty of making this determination can be illustrated by considering the state and local cost impact of a construction grant program with federal and state funding. The federal funding would mandate Davis-Bacon coverage--wages on federally supported construction projects equal to local prevailing wages--which in turn could increase state costs. According to the ACIR, 31 states have higher construction wage requirements than the federal Davis-Bacon level. Estimating incremental costs would require a state-by-state review of prevailing wages and comparable state requirements.

The need to identify the incremental costs of a specific federal requirement would be especially difficult when considering reauthorizations. Costs that may have been incremental for the state or local government when the program was first established may in the interim have become part of the program's ongoing operations. For example, the legislation authorizing the Head Start program required 20 percent local matching funds. At the program's inception, additional costs would have been at least 20 percent of the federally established level. In some jurisdictions, the program has been expanded using local funds. The reauthorization of Head Start could not be assumed to result in incremental costs of 20 percent.

In order to estimate incremental costs, CBO would have to establish a state and local budget data benchmark--a base against which new federal requirements could be measured.

## MANDATORY VERSUS VOLUNTARY PARTICIPATION

According to the University of California-Riverside study of federal mandates on local governments, approximately 82 percent of all mandates are conditions of aid for programs that, technically, are voluntary.<sup>1/</sup> If localities prefer not to comply with these requirements, they have the option not to enter the programs. One definition would not treat these requirements as costs. Alternatively, these requirements would be treated as costs, particularly when participation in the programs is essentially compulsory, when new requirements have been added to existing programs, or when maintenance of effort is required.

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<sup>1/</sup> See Federal and State Mandating on Local Governments: An Exploration of Issues and Impacts; Graduate School of Administration, University of California, Riverside, California 92521; June 20, 1979.

H.R. 1465 makes no distinction between mandated and required costs. In order to develop estimates of the costs incurred by voluntary participation, CBO would have to arrive at assumptions about participation rates. Information both on the state and local governments' current participation in federal programs and on their level of effort in various program areas would be needed to make these assumptions.

## TYPES OF INFORMATION REQUIRED

### State and Local Benchmarks

To establish a state and local budget data benchmark, data describing various program areas and various types of costs (for instance, reporting documentation, statistical information, interagency coordination and compliance efforts) would have to be collected. This would have to be done for all of the states and at least for a sample of local governments. These data would have to be updated at least annually and maintained in a form that would allow CBO analysts to develop a profile of the state and local base against which to consider new requirements.

### Regulations and Program Profiles

Estimation of costs of federal mandates and of modifications to major intergovernmental programs, such as the state-administered entitlement programs would require state-by-state identification of state regulations and state programs characteristics. For large programs such as AFDC and Medicaid, CBO would have to establish models that identified state program characteristics. Changes in federal requirements would then have to be tested against the existing state structures to determine state and local costs. CBO would also need to establish profiles of state and local response to major federal mandates such as environmental protection, nondiscrimination, and labor and procurement standards. This would have to be done either by one time studies or by development of ongoing data bases.

The need for models of program characteristics was demonstrated by the estimate CBO prepared on the state and local costs of H.R. 5482, a bill that would have set minimum federal standards for state workmens' compensation programs. <sup>2/</sup> The bill contained more than 30 provisions that would have affected state workmens' compensation costs. Each state was in compliance with some of the bill; various states, however, complied with different combinations of these provisions.

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<sup>2/</sup> See CBO Cost Estimate on H.R. 5482, submitted to the Subcommittee on Labor Standards; August 26, 1980.

### Data on Federal Assistance

Identifying incremental costs to state and local governments would require up-to-date data on the allocation of federal assistance programs. New requirements would have to be considered in the context of existing programs and the assumed allocation of the new federal assistance program. Data maintained by the Office of Management and Budget (OMB) in its Federal Assistance Award System should be a helpful source for data on many project and formula grant programs.

### LIMITATIONS IN AVAILABLE DATA

Obtaining the information required to prepare state and local cost estimates would be an expensive and time consuming undertaking. The data now available have numerous technical problems. Some of the data have been compiled by the Executive Branch agencies and by state and local government bodies. Much of that information would have to be carefully reviewed to insure comparability and reliability. Some of the difficulties are listed below:

- o Unlike cost estimates for federal budget purposes in which only the federal government is involved, state and local government cost estimates could cover all 50 states and any of 80,000 units of general and special-purpose local governments.
- o The widely divergent demographic characteristics that are often used to allocate funds to state and local governments could present problems, creating difficulties in projecting the costs of compliance with federal laws.
- o Despite attempts to adopt common codes, state laws are quite varied in many policy areas. This tendency is accentuated by federal guidelines which allow states substantial discretion and latitude.
- o Federal, state, and local accounting systems differ in a number of ways. For example:
  - Many state and local governments begin their fiscal years on dates other than October 1.
  - States and localities tend to place many activities off-budget (such as retirement systems, public authorities, boards of education), and some remove capital expenditures from general funds.

- Although almost all states include separate estimates of federal funds in state appropriations acts, some states mix federal and state funds together in their program accounts.
- o Many federal grants are passed through to localities, and reporting of their distribution is uneven and incomplete.
- o Discretionary grants tend to be distributed to different sets of governments every year.

Federal data on geographic distribution for many policy areas are inadequate. An attempt to reconcile four major federal data systems (OMB, Treasury, Census, and the Community Services Administration) by researchers at the University of Michigan found major inconsistencies. Even the best source of data, the CSA's "Geographic Distribution of Federal Funds" (earlier known as "Federal Outlays") contains distortions, particularly in accounting for the distribution of interest on the national debt, credit, and payments to subcontractors.

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## SECTION IV. HOW CBO WOULD IMPLEMENT H.R. 1465

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### OBTAINING THE NECESSARY INFORMATION

The first steps CBO would take in implementing H.R. 1465 would be to obtain as much state and local budgetary information as possible and establish contacts with individuals and groups who could provide additional information. We would review national sources of state and local data, and specify our program area requirements. As soon as possible, we would attempt to establish a benchmark of state and local budget data. Similarly state and local data would be gathered for programs with major implications for state and local budgets. Contacts would be established with associations of state and local governments, such as the National Conference on State Legislatures, the National Governors Association, and the National Association of Counties. Similarly, contacts would be established with state and local officials, both CBO's counterparts in the states--the people responsible for developing state and local fiscal notes at the state level--and operators of major programs. This collection of information would be an ongoing process. Estimates would become better and easier to produce as CBO further developed the information needed.

### IDENTIFICATION OF BILLS WITH SIGNIFICANT STATE AND LOCAL COSTS

As stated in Section I, H.R. 1465 establishes the definition of significant to be \$200 million in aggregate state and local costs or as exceptional consequences to a geographic region or particular level of government. The steps CBO would take to identify bills with significant state and local costs follows:

- o First, all bills would have to be reviewed to identify potential state and local fiscal impacts. This procedure would be added to the review now done in identifying federal costs. (Approximately 850 bills per session of Congress, based on the average figure for the last two complete sessions of Congress, would have to be reviewed.)



- o Second, any bills with potential state and local impact would have to be reviewed further to determine whether significant aggregate costs or exceptional fiscal consequences to a particular region or level of government might be expected. This review would be assumed to be limited in scope. (Some 140 bills per session, based on the past two complete sessions of Congress, would have had to have this limited review.)
- o Third, for any bill with potentially significant state and local fiscal impact, costs would have to be estimated in as much detail as practicable. (Approximately 75 bills per session, based on the past two complete sessions of Congress, would have to be analyzed in detail.)
- o Finally, under the provisions of H.R. 1465, cost estimates would have to be submitted for all bills that exceeded the \$200 million threshold or exceptional fiscal consequences. (Approximately 65 bills per session, based on the past two complete sessions of Congress, would require submission of estimates of state and local costs.)

The numbers in the steps above exclude as "not significant" any bill that CBO's analysts identified in the review as having limited state and local costs; 65 of 140 bills with state and local costs would have been excluded by the preliminary review described in the second step. Bills with \$100 million or more in potential costs would all have to be carefully reviewed given the large number of factors involved in determining costs. Any of these bills could have had costs that met the significance standard of \$200 million in the aggregate.

As a practical matter, CBO would test its own judgment as to state and local significance in discussions with reporting committees and/or jurisdictions affected.

### ESTIMATING TECHNIQUES

Estimating techniques required to develop state and local cost estimates, would vary according to the nature of the requirements and the language of each bill. In determining its approach to a bill, CBO would consider the language, the information available on the state and local costs, and the time available to prepare the estimate. Some of the techniques we would expect to use are listed below:

- o Sampling. In the case of many federal requirements, the number of factors to be considered may be so large that a sample of affected jurisdictions would have to be identified, and costs estimated for the sample and projected to identify an aggregate cost. In the workmens' compensation example, CBO developed estimates for an 11 state sample.
- o Use of Networks. A number of states use networks of local jurisdictions to identify cost factors for their local fiscal notes. CBO would expect to use existing national organizations and state and local officials to assist us in identifying costs. To be effective, relationships with these organizations and officials would have to be maintained on a continuous basis. This continuity would improve communications and the reliability and completeness of information.
- o Models. As noted above, for state-administered entitlement programs and other major intergovernmental programs, data bases would be created. The Medicaid program, for example, has had several bills in each of the past several sessions that could have resulted in significant state and local costs.
- o Specific Geographic Estimates. For estimates of pending bills with exceptional costs to particular regions, analysts would have to contact federal agencies or state and/or local officials to identify potential costs. For example, CBO would have contacted the state budget office of Alaska to determine the costs to the state of transfer of lands ordered by the Alaska National Interest Lands bill. The Federal agency would also have been contacted to confirm the accuracy of the figure.

## ESTIMATING PRACTICES

### Specificity of the Estimate

In preparing state and local cost estimates, CBO proposes to use its federal cost estimate practices for the specificity of estimates. Costs would be identified in the following order of priority:

- Point estimate,
- Range estimate,
- Cost factors.

In developing estimates of federal costs, CBO attempts to cite a specific number of point estimate--\$XX millions--as the cost. When the language of the bill is not provided in sufficient detail, or when the factors involved in developing the estimate are too uncertain to establish a point estimate, a range of possible costs is provided--\$XX millions to \$Y millions. If all numbers are too uncertain even to support a range estimate, whatever factors can be predicted to affect the cost are identified.

#### State-by-State Analyses

Given the complexity of factors involved and the time available, CBO would not propose to produce state-by-state analyses unless they have been developed as a byproduct of developing the overall federal estimate. CBO would be preparing national estimates of state and local impacts rather than individual state and local estimates.

#### Estimates Limited to Reported Bills

Section 403 of the Congressional Budget Act limits the requirement for CBO to prepare cost estimates to bills that are being reported by committee. This provision is intended to limit CBO's workload and staffing requirements. In practice, however, CBO has responded to requests by committees for federal cost estimates for legislative proposals before the final reporting stage.

In order to insure that the workload remains within bounds, state and local cost estimates might have to be limited to bills that have been ordered reported.

#### Timeliness

Section 403 also requires the inclusion of cost estimates with bills only if the cost estimate is submitted in a "timely" manner to the requesting committee. State and local cost estimates generally would be more difficult to prepare than federal estimates. They would, as a result, take more time. CBO would need to begin work on state and local cost estimates as far before the bill is reported as possible. Timing could thus present a problem.

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## SECTION V. CONCLUSION

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CBO has, in previous testimony, strongly supported the objective of bringing to the Congress' attention the anticipated costs to states and localities of carrying out proposed federal programs. Estimating the costs of such proposed actions would inform the Congress of the concerns of state and local governments and would be likely to improve the accuracy of estimates of federal programs with matching provisions. Section 403 of the Congressional Budget Act, as amended by H.R. 1465, would provide the necessary authority for CBO to develop such estimates. The bill would give CBO the flexibility needed to respond to the wide variation in requirements and estimating conditions we foresee. Initially, CBO's estimates would require more assumptions and could depend less upon hard data. With time and experience, we expect we would be able to fulfill this task effectively.

Attached to this report is a cost estimate of H.R. 1465. The costs assumed in this estimate have been referred to indirectly throughout this report. To summarize, CBO's costs would be as follows:

- o Staffing.

- Reviews of all bills (some 850) by CBO analysts (35) to identify state and local costs.

- Limited review of bills (roughly 140) with potential state and local impact.

- Analysis of costs of any bills (some 75) with significant costs.

- Preparation of state and local cost estimates (65 bills).

- Collection of data.

- Maintenance of network contacts.

- o Automated data processing (ADP) and studies.

- Benchmark data for state and local budgets.

- Models of major intergovernmental programs.

- Studies of national policy mandate areas.

- o Communications. Extensive contact with state and local officials to obtain assistance in preparation of estimates.

The interest in state and local implications of federal legislation and the inherent complexity of state and local cost estimates could result in demand that exceed CBO's resources. The unique legislative workload of the first session of the 97th Congress may, however, suggest a reduction in the need for state and local estimates for the immediate future and make these figures sufficient. Several factors would have reduced the number of bills this year but not necessarily the workload, as follow:

- o Reconciliation. While many of the provisions of the reconciliation bill affected state and local governments, the time schedule and procedure for consideration of the bill generally would have prevented the preparation of state and local cost estimates in a timely manner.
- o Block grants. The shift to consolidated block grants presents an estimating problems for which there is little historical precedent to draw on in estimating state and local costs.
- o Appropriations cuts. Major cuts in federal assistance to state and local governments may result in increases in state and local government costs. These costs would be difficult to estimate. Appropriations bills are specifically excluded from coverage of Section 403 of the Congressional Budget Act.
- o Tax bills. The 1981 tax bill also had significant impact on state and local governments. Most of the effects of tax bills would not be estimated under H.R. 1465 because they do not result from state and local governments "carrying out or complying with" federal legislation.

CBO would require additional resources in order to fulfill the requirements of H.R. 1465. As stated in the attached cost estimate, five cost analysts plus clerical support would be required to prepare state and local cost estimates, at the cost of about \$200,000. Data collection and studies are projected to cost \$450,000 at 1982 prices. Total additional costs to CBO are estimated to be \$700,000 for fiscal year 1983.