

Money Matters

A Publication of the House Fiscal Analysis Department on Government Finance Issues

Fiscal Notes

This Money Matters is intended to be used by members and staff of the Minnesota House of Representatives. The goal of this publication is to provide information about what a fiscal note is, what information it provides, how to request one and how to review the fiscal note.

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What Is a Fiscal Note

Fiscal notes put a price tag on proposed legislation, and are very important in the legislative process. A fiscal note should be an objective opinion on the change in expenditures and revenues that will result from a bill. Legislators need this information to make informed decisions on proposed legislation. A fiscal note may influence if a bill passes, if it fails, or if changes have to be made to lower the cost or to bring in more revenue.

Minnesota Statutes, Section 3.98 addresses fiscal notes. This legislation states that the head or chief administrative officer of each department or agency of the state government, including the supreme court, shall prepare a fiscal note at the request of the chair of the standing committee to which the bill has been referred, or the chair of the house ways and means committee, or the chair of the senate committee on finance.

MS 3.98 requires fiscal notes to include the following:

- Cite the effect in dollar amounts
- Cite the statutory provisions affected
- Estimate the increase or decrease in revenues or expenditures
- Include the costs which may be absorbed without additional funds
- Specify any long-range implications
- The fiscal note may comment on technical or mechanical defects in the bill but shall not express opinions concerning the merits of the proposal

The Fiscal Note Process

The Department of Finance manages the fiscal note process. Once the Department of Finance receives a legislative request for a fiscal note, the bill will be reviewed and assigned to the appropriate state agency or agencies. Agency staff then prepare the fiscal note using the Department's guidelines. When the fiscal note is completed, the Executive Budget Officer (EBO) will review the note for completeness, accuracy and objectivity. Once the EBO signs off on the fiscal note, the note is forwarded by e-mail to the chief author, the committee chair, the person who requested the note (in most cases this will be the committee administrator of the Ways and Means Committee), and the fiscal analyst for the area. Agencies usually have five working days to complete a fiscal note. This time frame can be much shorter if the note is requested as an emergency or when committee deadlines are approaching.

Fiscal notes will be posted to the Department of Finance web site (www.finance.state.mn.us/bis/fnts_leg/). The posting will be done two days after the individuals listed above have received their e-mail copies, giving the author time to review the note before it is widely released. Fiscal notes from the 1997 and 1998 legislative sessions will also be on the web site.

Format of Fiscal Notes

A fiscal note can be very simple or it can be very complicated. For example, a fiscal note can be as short as two pages and involve only one agency, or the fiscal note may involve many agencies and run several pages. A good example of the latter is the fiscal note on the 1998 driving while intoxicated bill that was 21 pages, involved seven agencies, and had an impact on local units of government.

A fiscal note is structured to include both a summary page and additional narrative pages. The narrative pages describe the bill, detail the assumptions that used to develop cost and revenue estimates, address any local impact, include any formulas that are utilized, and document references and sources that were used.

Single Agency Fiscal Note

A single agency fiscal note starts with a summary page that shows the net impact to the state. This first page consists of a table listing net expenditures and revenues by fund, and showing the net cost or savings to the state (expenditures minus revenues). The summary page also includes a box that shows if there is a fiscal impact to the state (the bill may have no fiscal impact), local units of government, fees or departmental earnings, and tax revenue. Finally, the summary page also shows the full time equivalents that will be needed to administer the proposal. The fiscal note shows this for the both current biennium and for the next biennium. Following this first page, narrative pages describe in further detail how the cost and revenue estimates were derived by listing the assumptions and formulas used.

Consolidated Fiscal Note

If the fiscal note involves more than one agency it is called a consolidated fiscal note, and the first page will provide summary information for all agencies involved. Following the summary page each agency will also have their own summary page and page(s) that will list the assumptions and formulas that they used to determine their agency figures. During the 1998 session the average number of agencies per fiscal note was 1.72.

The following table give a more detailed look at the components of a fiscal note.

Summary Sheet	
Headings	Description
The heading will read either fiscal note or consolidated fiscal note	A fiscal note involves only one agency while a consolidated fiscal note means the note involves more than one agency.
Bill Number	Shows the bill number and version.
Completion Date	The date the fiscal note was signed off as completed by the Finance Department.
Agencies	A list of the agency or agencies impacted by the legislation.
Fiscal Impact	Addresses the fiscal impact of the bill at the state level, the local level, if the bill involves fees or departmental earnings, and if the bill involves tax revenue. If any of these factors are met, they will be checked off.
Net Expenditures ¹	What the bill will cost, presented by fund and by agency.

¹ Remember all numbers in the fiscal note are in thousands (10= 10,000)

Summary Sheet

Headings	Description
Revenues	Any revenue that the bill may bring in, listed by fund and by agency.
Net Cost or Savings to the State	The revenues are subtracted from the expenditures to determine the net cost or savings to the state. This is done by agency and by fund.
Total Cost or Savings to the State	This is the bottom line and shows the net impact to the state. If more than one agency was listed, this combines them by fund.
Full Time Equivalents	The number of full time equivalent staff positions. A full-time equivalent position is 2,080 working hours per year. This does not include any consultant time.

Supporting Narrative Pages

Headings	Description
Bill Description	A brief description of the part of the bill that will create a fiscal impact.
Assumptions	A list of the assumptions used to determine the impact of the bill.
Expenditure and/or Revenue Formula	Any formulas that are used to come up with the numbers in the fiscal note.
Long-term Fiscal Considerations	Addresses whether the fiscal impact will continue beyond the initial forecast period.
Local Government Costs	Local government's costs, if any, should be identified and explained.
References/Sources	The person who had input into the fiscal note. Also includes any studies and references that were used to determine the fiscal implications of the bill.
Agency Sign-off	The names and phone numbers of the agency contact and the agency fiscal note coordinator. These are the appropriated agency staff to answer questions about the content of the fiscal note.
Executive Budget Officer (EBO) Comments	The EBO from the Department of Finance approves the fiscal note and may make comments on its contents.

Local Impact

Often a piece of legislation will impact local units of government. The fiscal note manual requires any local government costs to be included in fiscal notes. Yet, many agencies will simply check the box on the summary page showing that there is a local impact, but will not determine what the impact is expected to be.

Determining local costs is perhaps one of the more difficult areas in the fiscal note process. Local costs, if included, tend to be less accurate because they are much more difficult to estimate. A good example of a local impact is a bill that involves harsher criminal penalties. These penalties may have an impact on the local corrections system (more jail beds, county attorney time, etc.).

Separate legislation on local impact statements was passed in 1997 and changed during the 1998 session. The 1998 omnibus tax act made substantial modifications to the local impact note and local mandates statutes. This is in Laws 1998, Chapter 389, Article 16, Sec. 1-7 (see M.S. 3.987-3.989 for the local impact note statute). Even though this statute is separate from the fiscal note legislation, the Department of Finance still views local impact statements as part of the fiscal note process. The Department of Finance is now working with local units of government to improve the collection of local fiscal impact information. The Department has established two committees to deal with the local impact; a county local mandate advisory committee and a city local mandate advisory committee. During the 1998 session one local impact statement on the child welfare bill was prepared.

The same individuals that receive fiscal notes will receive the local impact statements. The Department of Finance believes that many of the local impact statements will take longer to complete than fiscal notes.

How to Request a Fiscal Note

In the House of Representatives, authors of the bill, committee administrators, and fiscal analysts request fiscal notes through the fiscal note coordinator, who is the committee administrator for the Ways and Means Committee. The committee administrators of both the policy and finance committees should work with the fiscal analyst to determine how requests will be made to the fiscal note coordinator.

The ideal practice is for the policy committee to have a copy of the fiscal note while the bill is being heard. If this is not possible because of time constraints, the fiscal note should be completed by the time the finance committee hears the bill.

How to Review a Fiscal Note

Fiscal notes should be reviewed for accuracy, completeness and objectivity. When reviewing a fiscal note, consider several key points:

- Do the parties that are completing the fiscal note understand the author's intent? Agencies may have a different interpretation of the author's meaning, and this can affect the accuracy of the numbers.
- Are the assumptions clearly stated? If several agencies are involved in the fiscal note, are the assumptions the same for all agencies involved? The connection between the assumptions and the fiscal impact must be clear and logical.

- Do the assumptions take into account relevant budgetary, economic, social and demographic factors, and do agency staff take into account the latest research in the area? These are important because they could change the assumptions.² Agencies are encouraged to make assumptions and estimate costs even when uncertainty exists. The assumptions should be reviewed to determine if the most likely scenario is selected.
- Do the numbers look reasonable and realistic? Are the formulas correct?
- Does the fiscal note address future spending outside the current biennium (called tails)? At times, costs will be minimal the first year but will accelerate in future years.
- Is a local impact included? The local impact is an important part of the fiscal note and should be included whenever needed.
- If agencies are requesting new staff positions, the first year costs could be less than future costs because not all positions will be filled the day the bill takes effect. Also, agencies should be using the first step of the salary range for positions unless they can justify in the assumptions a higher step.
- If the legislation is creating a grant program and the agency is claiming administrative expenses, are these reasonable or even needed? Past experience shows a big difference for administration expenses in fiscal notes.
- Are all agencies included that may be impacted? The Department of Finance will send the fiscal note request only to the agencies it thinks are impacted, and may have missed an agency.
- Is the agency working on the latest amended copy of the bill, and is the fiscal note for the amended bill? This can be easily determined by looking at the summary page that includes the bill number and version.
- Any questions or concerns on fiscal notes should be directed to the appropriate fiscal analyst for further research on the issue.

Helpful Hint For complicated fiscal notes, start with the agency pages, and then review the summary page. It may be helpful to set up a meeting of the major agencies involved in the fiscal note and talk about their assumptions.

Fiscal notes are difficult to do because they project into the future. The person reviewing the fiscal note should be critical. Agencies are often under pressure to complete fiscal notes in a very short time frame and mistakes are made. Some agency staff may not be adequately trained in preparing fiscal notes. Many times the agency is providing its best guess. Other times agency staff may come up with a range, but since they cannot use a range they will often pick a number in the range and use that number in the fiscal note. There is also the tendency of agency personnel who do not like the legislation to include very high costs. Or, on the other hand if they do like

² A good example of this was the “3-Strikes” legislation (if an individual has a third conviction for a violent felony he or she will go to prison for life). Several members felt the bed impact numbers were too high. House staff supplied the Sentencing Guidelines Commission with recent research on two states that had enacted this type of legislation. Because of this, Sentencing Guidelines cut their estimated bed impact in half.

the bill there is the tendency to low ball the numbers for the fiscal note. If this is the case, the agency often comes back later to ask the legislature for more funding for the project.

Agency cost estimates may vary greatly depending on the assumptions used. This problem is not unique to state government. For example, note the difference in how the Exxon-Mobil deal was valued by the national press:

How Much W

What's a few billion between friends? Major media outlets came up with different price tags for the largest merger in history that dominated business news headlines. Whether to include the value of assumed debt was one variable, along with the number of shares used in calculating the total. Here's a sampling:

Wall Street Journal:	\$75.3 billion
New York times:	\$80.0 billion
Washington Post:	\$81.0 billion
Reuters:	\$76.0 billion
Associated Press:	\$73.7 billion
Newsday:	\$82.9 billion

How the Process can be Improved

Fiscal notes put a strain on agencies, since it takes time and resources to complete a fiscal note. Legislators and legislative staff can help the process by requesting fiscal notes only on those bills that have a fiscal impact.³ If a bill has no fiscal impact and a fiscal note is still requested, the agency must complete a fiscal note and explain in the assumptions why there is no fiscal impact.

- If it is unclear if a bill has a fiscal implication and needs a fiscal note, contact the fiscal analyst of the committee. The fiscal analyst can determine if there is a fiscal impact and if a fiscal note is needed.
- Request fiscal notes only on bills that are actually moving through the committee process.
- Request the fiscal note as soon as possible, preferably as soon as it is known that the bill will receive a hearing.

Further References

The Fiscal Note Policy and Tracking System Manual, Department of Finance (each fiscal analyst has a copy).

Money Matters, *A Glossary of Fiscal Terms and Acronyms*, August 7, 1998, Vol13, No VII (also at www.house.leg.state.mn.us/fiscal/fahome.htm).

For more information on fiscal notes, contact Gary Karger at 651-296-4181, e-mail: gary.karger@house.leg.state.mn.us

³ During the 1998 session the House requested 382 fiscal notes and the Senate requested 270 (for comparison the House requested 505 fiscal notes in the 1996 session). Fiscal notes were requested on 23% of the bills that were introduced in the House.