

GAO

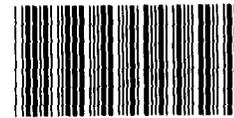
Testimony

For release
on delivery
Expected at
10:00 a.m., EDT
Thursday
July 30, 1987

Reauthorization of the State
and Local Cost Estimate Act

Statement of
J. William Gadsby, Associate Director
Human Resources Division

Before the
Subcommittee on Government Efficiency,
Federalism and the District of Columbia
Committee on Governmental Affairs
United States Senate



133580

039581 / 133580

REAUTHORIZATION OF THE STATE
AND LOCAL COST ESTIMATE ACT

Summary of GAO Testimony

The process the Congressional Budget Office (CBO) uses to prepare estimates of the cost impact of pending legislation on states and localities is driven by a number of constraints, including legislative deadlines, availability of information, and other priorities. Given these constraints, the approach taken by CBO is reasonable. Further, its estimates serve a useful purpose in providing information to the Congress about the impact of proposed federal legislation on states and localities. However, CBO's estimates have generally not had a major effect on the course of legislation. Often programmatic and policy issues are of greater concern than state and local costs.

Changes, however, could be made to the cost estimate process to focus greater attention on state and local costs. In some cases, these changes could increase CBO's workload. Some of these changes include

- Preparing estimates earlier,
- Updating estimates for amendments, and
- Preparing estimates on bills now excluded.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our views on the State and Local Cost Estimate Act. Last year, Senator Durenberger asked us to review both federal and state approaches for preparing estimates on legislation imposing costs on lower levels of government. Our objective was to identify state approaches that could improve the federal process for estimating the costs of these mandates.

At the federal level, we reviewed the cost-estimating activities of the Congressional Budget Office by examining eight of the bills with the most significant state and local costs for which CBO prepared state and local estimates during the 99th Congress. A list of these bills is attached to this statement. We discussed cost estimate preparation with CBO analysts and with Congressional staff on committees having jurisdiction over those bills. We also visited 8 states and sent a questionnaire to all 50 states to obtain information on their cost estimation processes.

Preparation of Cost Estimates

The preparation of state and local cost estimates is a constraint driven process. First, the time available to prepare estimates is generally quite limited because of legislative deadlines. CBO usually prepares an estimate when a bill is reported out of committee and the estimate is to be available for inclusion in the committee report on the bill. Typically, this gives CBO about 3 to 5 days to prepare the estimate.

Second, proposed legislation subject to estimates covers a myriad of subject matters. As a result, the cost estimate for each bill must be developed separately, with data collection and other contacts tailored to each set of circumstances. To get the needed information, CBO typically relies on telephone contacts with committee staff having jurisdiction over the bill, the federal agency responsible for administering the program, and selected state and local governments and interest groups.

Third, preparing federal estimates takes priority over state and local cost estimates. Bills can be and are considered on the floor in the absence of state and local estimates. But they are rarely considered without a CBO estimate of the federal cost impact. For example, for the Safe Drinking Water Act (P.L. 99-339), the federal estimate was included in committee reports but the state and local cost estimates were not available until after the bill passed both houses.

States face similar constraints in preparing cost estimates for state legislation that imposes mandates on local governments. Like CBO, they are faced with limited time. About two-thirds of the states responding to our questionnaire said that they generally had from 1 to 6 days to prepare estimates. Also, methodological approaches used by states are similar to CBO's in that they generally rely on telephone contacts and nonsystematic data collection.

Outcomes of the Cost Estimate Process

Mr. Chairman, you asked us to compare outcomes of the cost

estimate process at the federal and state levels. At the federal level, we contacted the 14 congressional committees with jurisdiction over the eight bills we reviewed. Committee staff generally said that CBO's cost estimates provide useful information about the state and local costs associated with legislation and that this is an important function of the cost estimates. Also, most committee staff said that CBO's approach and methodology were reasonable. Almost all of our respondents described CBO as an objective organization that produces reliable estimates.

Although CBO was a valued source of information, its estimates had a mixed effect on modifying mandates. They had no perceived effect in changing the course of five of the eight pieces of mandate legislation we reviewed. Committee staff said that programmatic and policy goals often overshadow cost issues--particularly state and local costs. Other factors contributing to the lack of effect include: lack of state and local interest group involvement and the intent in some legislation to shift costs to nonfederal entities.

On the other hand, for three bills, CBO's cost estimates were used during committee deliberations and did influence the course of legislation. For example, in considering legislation to amend the Fair Labor Standards Act, the House Committee on Education and Labor asked CBO to do a special analysis of the impact of the Garcia Supreme Court decision relating to the application of overtime wage provisions to state and local

governments. The request stemmed from conflicting cost claims by various interest groups. According to committee staff, CBO's estimate validated the significance of the cost impact of the Garcia decision and influenced the passage of legislation in a form that mitigated state and local costs. In another case, the Education of the Handicapped Amendments of 1986 (P.L. 99-457), the CBO estimate contributed to legislative modifications that reduced the estimated state and local cost impact.

At the state level, the preliminary results from our questionnaire to state legislative leaders also indicate that the primary impact of the states' cost estimates is to increase state legislative awareness of local cost impacts. Only a quarter of the respondents said that cost estimates significantly deter, modify, or result in the provision of funding for state mandates.

Observations

Mr. Chairman, in view of the constraints inherent in the cost estimate process, we believe CBO's approach is reasonable. The users of the CBO estimates said they served their primary purpose of providing information to the Congress that adds to or confirms understandings about the state and local cost impact. Further, the estimates have on occasion influenced the course of legislation by reducing state and local cost impacts. Therefore, the CBO cost estimates are useful and we support the reauthorization of the State and Local Cost Estimate Act.

It is important to note that the cost estimate process alone cannot be generally expected to deter mandates on states and

localities. The actual reduction of mandates seems to be more a function of commitment by legislators as well as the interest groups representing state and local governments. Certain changes could be made in the process, however, to help focus more attention on the costs imposed on state and local governments by mandates. Some would increase CBO's workload and thus raise the policy question of whether the additional information is worth the cost. These changes would call for CBO to:

- Prepare some or all estimates earlier in the legislative process than the committee report stage. Estimates prepared on bills reported by subcommittees, for instance, offer greater potential for influencing the debate.
- Prepare subsequent estimates as significant bills are amended. This would provide updated information to members, but such estimates might not always be feasible given the short time frame often provided for considering amendments.
- Prepare estimates on appropriation and tax bills. As some interest groups have noted, such legislation can have significant cost impacts on state and local governments.

Another change that could be accomplished that may not significantly increase CBO's workload would be to have CBO include more information on the extent and nature of contacts and the assumptions made to develop its state and local estimates.

The committee staff we talked with said that such information could provide them with a greater understanding of the estimates.

This concludes my statement and I would be pleased to answer any questions that you may have.

CBO CASE EXAMPLES FROM 99TH CONGRESS

Bill Title	Bill Number	Dollar Amount of Estimate ¹	Bill Status
Safe Drinking Water	HR 1650 S 124	\$3.5 bill. capital costs; \$200-300 mill. annual costs	Passed
Education of the Handicapped	HR 5520 S 2294	\$575 mill. annual costs \$530 mill.-\$2.7 billion annual costs	Passed
Water Resources Development	HR 6 S 1567	\$524 mill. annual costs	Passed
Rehabilitation Act Amendments	HR 4021 S 2515	\$500 mill. annual costs	Passed
Immigration Reform	HR 3810 S 1200	\$225-250 mill. annual costs	Passed
Housing Act of 1985	HR 1	\$274 mill. total costs	Not Passed
Ocean Dumping	HR 1957	\$30 mill. annual costs	Not Passed
Fair Labor Standards Act Amendments	HR 3530 S 1570	\$0.5-1.5 bill. annual cost savings	Passed

¹ In seven of the eight cases, the CBO estimate for both the House and Senate versions of each piece of legislation indicated the same state and local cost figures. For the Education of the Handicapped bill, the CBO figures differed for the House and Senate versions.