

Chapter 3

Completing the Fiscal Note Worksheet

A. General

A fiscal note worksheet can be printed from the Fiscal Note Tracking System or a copy is available online at: <http://www.mmb.state.mn.us/fiscal-docs>. The worksheet should be used to prepare the fiscal note before entry into FNTS. Specific instructions for completing the fiscal note worksheet follow.

- Dollar amounts in the fiscal implications section are to be stated in thousands, e.g., 1 = 1000.
- FTE in the fiscal implications section can be down to the hundredth of a position, e.g., 2.25.
- A listing of state funds is available in FNTS or online at: <http://www.mmb.state.mn.us/fiscal-docs>.

B. What Version of the Bill Are You Working On?

The bill version an agency is preparing the fiscal note on must be the one requested or a later version. If working on a later version, the fiscal note version may be changed by contacting Minnesota Management & Budget staff, Mary Crosson at 651-201-8042 or mary.crosson@state.mn.us. When the bill version is changed in the system, a new fiscal note request is created.

C. Agency Contact

Under Agency Contact, include the name and phone number of the person who should be contacted with questions about the fiscal note. The suggested format for the Agency Contact field is as follows: Name (phone number). The agency contact name and phone number will be printed before the Fiscal Note Coordinator in the Agency Signoff section of the fiscal note.

D. Four Fiscal Impact Indicators

The Fiscal Impact Indicators must be completed before an agency can sign off on a fiscal note.

1. **State Fiscal Impact:** *Does this bill have a fiscal impact to your agency?* If the bill has fiscal impact to your agency's operation, check the "Yes" box. If you are a central service agency responding on behalf of other agencies and there is a cost to those agencies, check the "Yes" box. Detail of the fiscal impact should be included in the fiscal implications and supporting narrative sections of the fiscal note. If there are expenditures associated with the bill that your agency would absorb all or part of the costs, the agency must still check the State Fiscal Impact box "Yes."
2. **Local Fiscal Impact:** *Does this bill have a fiscal impact to a local government unit?* If the bill may have a fiscal impact on a local government unit or political subdivision, check the "Yes" box. An explanation of the local government impact and, where feasible, an estimate from the local government unit should be included in the supporting narrative section under the Local Government Impact section.
3. **Fee/Departmental Earnings:** *Does this bill impact a fee or departmental earning?* If the bill impacts a fee or departmental earning, check the "Yes" box. Departmental earnings are defined as service charges, license fees, regulatory fees and other charges imposed by or pursuant to state law. Supporting narrative sections should include fee assumptions, explanation of who will pay, and any formula or equation detailing the revenue generated by the fee and the costs to be recovered.
4. **Tax Revenue:** *Does this bill impact tax revenue?* If the bill impacts tax revenue, check the "Yes" box. Supporting narrative should include detail of the tax involved along with assumptions and any formula or equation used in estimating the tax revenue.

E. Fiscal Implications

1. Expenditures

- The expenditure section summarizes the estimated cost to your agency by state fund for each fiscal year 2013 through 2016.
- Agency expenditure estimates should be stated as expected costs consistent with budgetary policy and instructions for the 2014-15 biennium. The expenditure amounts as calculated must be detailed in the supporting narrative section. No inflation should be included for the planning years, 2016 and 2017. Caseload levels and enrollment fluctuations are allowed, but these assumptions need to be included in the supporting narrative section of the fiscal note.
- Agency estimates should only include direct impacts.
- **Secondary impacts**
- **are excluded from fiscal note estimates.** Discussion of potential secondary costs may occur within the narrative of the fiscal note, but should never be included in the table. Examples of secondary impacts include:
 - A provision that requires all young children to be immunized at a state cost of \$1 per child (the direct costs/fiscal implication) might possibly reduce future state expenditures on treatment for disease (secondary fiscal implication). In this example, only the \$1 cost per immunization would be included in the estimate.
 - Another example is a bill that requires all motorcycle riders to wear helmets. The primary fiscal impact of such a bill is the cost of enforcing the new law and the expected revenue from citations. A secondary impact is the potential reduced cost of medical care as individuals on public health care programs might be less likely to be injured in an accident. While reducing health care costs may be one of the main considerations of such a bill, it is an indirect impact of the bill and should not be included as a fiscal impact.
- Detail of the estimated expenditures by various objects of expenditure (salary, benefits, supplies, equipment, travel, etc.) should be explained in the Assumptions and Expenditure Formula in the supporting narrative.

2. Agency Can Absorb

In some cases, the workload and associated costs resulting from legislation may be absorbed by the agency.

- M.S. 3.98 requires fiscal notes to cite the dollar effect of proposed legislation. Fiscal notes on bills that explicitly require an agency to absorb the costs of implementing the legislation within existing funding should continue to show the costs of the legislation. If an agency is able to absorb costs, they should indicate the amount that can be absorbed on the cover page of the fiscal note; however, the indication of absorbed costs should not be made solely based on language in the bill stating that costs must be absorbed. If other agency activities will be displaced as a result of absorbing the costs, that should be discussed within the narrative of the fiscal note. Costs associated with forecast programs should never be absorbed and should be shown on the cover page of the fiscal note.
- The fiscal note should inform the legislature of the cost implications associated with the proposed legislation. The legislature considers fiscal notes advisory and in doing so may determine whether or not to fund the costs identified within a fiscal note.
- Identify all incremental costs and workload in the Fiscal Implications section under Expenditures. Then, under the Agency Can Absorb section, identify costs by state fund for each fiscal year 2013 through 2016 that the agency would be able to absorb.
- This **should only occur** if it is an extension of a current activity or function without displacing any other functions within your existing budget. Costs that are acceptable for absorption should be operational only and should be limited in scope. They need to be something that would not be considered a new cost to the agency, but something that can be done within existing work.

Absorption of costs needs to be supported with analysis clearly explaining why the costs may be absorbed. Additionally, agencies are encouraged to consider whether the costs could be absorbed if other bills were enacted that involved absorbed costs and if the costs are being absorbed based on a fair analysis of the impact (not because the agency supports the bill). Agencies need to consider whether or not they can create thresholds for activities that can be absorbed. An example might be:

- A bill would require 0.5 FTE to support the activity of the bill. If the activity were performed by one staff person, it may require the agency to hire a new 0.5 FTE. If the activity were spread across a division of 20 staff, it might mean each of those staff dedicate 52 hours of time to the activity and the agency may indicate that they are able to absorb the cost when spreading the work out among multiple existing staff without displacing other work. If the additional 52 hours of time for the 20 staff people would displace other work, then the agency should not indicate that they can absorb the costs.

3. Revenues

- The Revenue section summarizes the estimated revenue to your agency by state fund for each fiscal year 2013 through 2017.
- Estimated revenues should include both dedicated and nondedicated receipts from all sources, e.g., taxes, federal reimbursements, fees or departmental earnings.
- Detail of estimated revenues by various sources should be included in the supporting narrative section.

4. Full Time Equivalent (FTE) Positions

Certain proposed legislation may require an increase or decrease in staffing levels. Any such impact on staffing should be calculated in terms of full time equivalent positions.

- M.S. 16A.122 (Work force planning and reporting) defines a full time equivalent position as “2,080 working hours per year; except that the number of work hours may vary, depending upon the exact number of working days in any given year. Independent contractors are not to be included within the definition of a full time equivalent position.”
- Agencies should include any increase or decrease in the number of FTEs by state fund and reflect any corresponding increase or decrease in salary and benefit costs in the expenditure section of the fiscal note.
- FTE can be stated down to the hundredth of a position, e.g., 2.25 or .75.
- FTE changes should reflect the difference from current projected levels for each year. For example if a bill would add 5 FTEs in each year every year for four years, the FTE table would show an FTE impact of 5, 10, 15, and 20 for the 4 years (not 5 each year). If the bill would add 5 FTEs that would be needed ongoing, the table should show 5 FTEs each year.

To calculate the estimated costs of new positions, agencies should use a format similar to the one shown below. Costs associated with each FTE should include the following: salary (at a level determined appropriate by the agency), fringe, and associated supplies and expenses.

Salary:

Job Classification _____	\$ _____	x _____	pos=\$ _____	
Job Classification _____	\$ _____	x _____	pos=\$ _____	
Job Classification _____	\$ _____	x _____	pos=\$ _____	
Subtotal \$ _____				(a)

Fringe Costs:

FICA 6.2% + Medicare 1.45% + *Retirement 5.0% = 12.65%	
(a) x 12.65% = (b)	\$ _____ (b)
Insurance (As of 1/1/09 family = \$1,335/mo.) x _____ Pos	\$ _____ (c)
TOTAL SALARY AND FRINGE (a+b+c)	\$ _____

Supplies and Expenses:

Office Space Rent	_____ sq ft x \$ _____	sq ft	x _____	pos=\$ _____
Furniture	\$ _____		x _____	pos=\$ _____
Telephone	\$ _____ /mo x 12 mo		x _____	pos=\$ _____
Travel Expense	depends upon job duties			\$ _____
Supplies	office supplies \$ _____		x _____	pos=\$ _____
Equipment	PC/software \$ _____		x _____	pos=\$ _____
Other (describe)	_____		x _____	pos=\$ _____
TOTAL SUPPLIES AND EXPENSES				\$ _____

*These are estimates that may differ depending on the retirement plan or insurance coverage. The 5.0% retirement percentage represents the rate for the MSRS general retirement plan for FY 2012.

F. Supporting Narrative

Fiscal notes are to include supporting narrative that should clearly, yet concisely and transparently explain agency expenditure, revenue, and FTE estimates. Because legislators and legislative staff may not be familiar with the details of agency programs and operations, the supporting narrative should be written for a general audience and should avoid jargon, acronyms, and abbreviations (except when terms are clearly explained when first introduced in the fiscal note narrative). Agencies should carefully document assumptions and rationale used in preparing fiscal notes. Each fiscal note narrative should use the following format:

1. Bill Description

- Briefly describe what the legislation does, with an emphasis on the bill provisions that have fiscal impact on the agency by describing how the provisions will affect agency operations. Be sure to include the article and section numbers as a reference. To the extent that portions of the bill do not have fiscal impact, a section-by-section analysis of the bill is not necessary; however, the description should clearly describe which sections of the bill are being addressed in the fiscal note.
- Indicate the budgetary program(s) being affected by the proposed legislation.
- Indicate if the legislation contains an appropriation or funding or if the appropriation or funding is included in a budget bill.
- Describe the general workload and policy assumptions that have revenue or expenditure impact on the agency. Any assumptions should be clearly explained.
- Describe the changes(s) from current law that are driving an increase or decrease in expenditures or revenues. Include any significant historical data that may be appropriate.
- Highlight changes from previous versions of the bill for which a fiscal note was requested. If there is no change from the previous bill version, be sure to state this fact. The requester of the fiscal note, or the bill’s author should be contacted with questions about the changes.
- Note technical or mechanical defects. Technical or mechanical defects should be limited to bill drafting errors such as internal reference conflicts, conflicts with unamended statutes, undefined terms, etc. There should be no statements related to the merits, support or opposition to the bill.

2. Assumptions

Detail assumptions made in preparing the fiscal note. Explanations of assumptions should be clear, transparent, reasonable, justifiable, documented and easily understood by interested readers.

This is very important for a complete understanding of the fiscal note. For example, a basic description of components such as the number to be served, unit or average costs; the timing of expenditure changes; and when program or staff changes will be fully implemented.

- Describe agency expenditures necessary to implement the legislation.

- Explain how workload assumptions translate into cost estimates.
- State the assumptions and methods used to arrive at the dollar estimates for each object of expenditure and FTE.
- State assumptions regarding the salary levels of new full-time equivalent positions (FTEs) being requested. Agencies should identify the classification, compensation code, and salary step of new positions being requested. If new positions will not start at the first salary step, provide rationale. Agencies may state the source of data, such as the AFSME Contract.
- Assumptions regarding fringe benefits and associated supplies and expenses should also be separately identified.
- Distinguish between one-time and ongoing costs.
- State the indirect cost assumptions for non-general funded programs and activities.
- Display administrative, contract, and grant costs separately, if applicable.
- Indicate workload and accompanying costs that the agency is able to absorb. Include an explanation of programs or activities that may be displaced.
- Describe the assumptions and methods used in estimating the revenue impact of the legislation, including revenue sources, e.g., taxes, departmental earnings or fees, federal reimbursement. Explain how the assumptions translate into revenue estimates. Distinguish between one-time and ongoing revenue.
- Explain any substantial differences in revenue or expenditures between the first effective biennium of the legislation and the second. Situations where substantial differences may occur are when a phase-in period is necessary or when start-up costs are high.

3. Expenditure and Revenue Formula

Indicate a basic equation or formula that rolls up all of the assumptions into the bottom- line fiscal impact, if applicable. Assumptions used in the formula should be footnoted.

Simple example:

Summary of Impact on Revenues:

Water Permit Application Fees: 100 applications x \$135 fee	\$13,500
Dam Safety Application Fees: 4 applications x \$75	<u>300</u>
Total Revenue	\$13,800

Unit Cost Calculations should be given, if applicable. This will most likely be applicable for proposals relating to grants or programs providing services or assistance to individuals or groups.

4. Long Term Fiscal Considerations

Be sure to include any long-term fiscal considerations beyond the fiscal year 2013. This is especially important if there will be substantial differences in expenditure or revenue estimates from the fiscal years shown in the fiscal implications section such as phased-in revenues or expenditures, or sun-setting.

If federal funds are involved, discuss the probability of continued federal support.

5. Local Government Costs

Identify the local government unit(s) affected by the legislation (e.g., townships, counties, school districts, cities).

Describe the fiscal impact to the local government unit(s), including any estimates received from the local government organization with any assumptions provided.

Indicate if there are new or expanded local mandates involved in the proposed legislation. Local mandates are to be categorized as either program or non-program. **Program mandates** involve proposals that would expand, reduce, or alter local government functions or services. **Non-program**

mandates involve proposals which apply equally to private or public entities and which relate to the organization or institutional structures of local units of government (e.g., elections, public meeting requirements, data collection, tax collection, procurement procedures).

6. References/Sources

Reference the source of the information provided in the fiscal note (e.g., agency staff, research articles, similar programs in other states).

Relevant work papers should be retained for future reference. Documentation is often needed to defend agency fiscal estimates in appearances before legislative committees; to facilitate preparation of fiscal notes involving bills that are amended; and to help resolve disputes or questions of intent that might arise after legislation has been enacted.

G. Agency Fiscal Note Signoff

After completing entry of information into the system, an agency should carefully review its fiscal note for accuracy, transparency and completeness. Sign off should only be completed when data is approved and not likely to change. Upon agency signoff, the agency contact and the fiscal note coordinator's name and telephone number will appear at the bottom of the fiscal note as well as the signoff date. Agency signoff serves as a notification to the assigned executive budget officer that the fiscal ***note is ready for their review.***

Agencies that wish to edit a fiscal note after they have signed off must contact either the FNTS staff (Mary Crosson at 651-201-8042 or mary.crosson@state.mn.us) or their assigned EBO to have the fiscal note reopened.

H. Executive Budget Officer (EBO) Review

Minnesota Management & Budget reviews agency fiscal notes before transmitting them to the legislature. The review is performed by an agency's assigned executive budget officer and occurs after agency signoff. The executive budget officer signoff indicates that a fiscal note has been reviewed for reasonableness, completeness, and conformity with statewide policies and procedures. Executive budget officers may approve or not approve a fiscal note and have the ability to add clarifying comments. In some instances, the executive budget officer will contact an agency to discuss the fiscal note and require revision or additional information.

I. Consolidated Fiscal Note – Lead EBO Review

On a consolidated fiscal note (multiple agency fiscal note), the lead agency's assigned executive budget officer has the responsibility to review the consolidated fiscal note for common assumptions among assigned agencies. In some cases, the EBO may contact the lead agency to discuss the approach to the fiscal note prior to it being complete. Upon review of the consolidated fiscal note, the Lead EBO may approve or not approve a fiscal note and can add comments. In some instances, the lead executive budget officer may contact one or more of the assigned agencies for revision of their fiscal notes.

J. Distribution of Fiscal Notes

Immediately following executive budget officer signoff or lead executive budget officer signoff, the completed fiscal note is distributed by e-mail to the chief bill author, requesting committee chair, committee fiscal analyst, agency fiscal notes coordinator and the legislative requester.

K. Revised Fiscal Notes

Occasionally, an error is detected in an agency fiscal note after being distributed to the Legislature. In this circumstance, the affected agency and EBO signoff will be removed from the fiscal note and the agency will be asked to correct the information that is in error or add additional information. The Legislature is notified by e-mail of a fiscal note that is in the process of being revised. After the agency has corrected the error and signed off, the EBO will review the revised fiscal note and sign off. At this point, a revised fiscal note will be distributed to the legislature. FNTS identifies a fiscal note that is in the process of being revised or has been revised with a "(R)" suffix after the bill number and version. For example: H1234-0 (R).