

SB1178 Open Meeting Minutes
Relating to Cost Benefit, Return on Investment and Dynamic Scoring Techniques
November 29, 2010

Attendees

EDR	Amy Baker	Frank Williams	David Dobbs	Melissa Hallaian
House	Don Langston	Adam Tecler		
Senate	Jose Diez-Arguelles	Ellen Fournier		
EOG	Christian Weiss			
Others	Stephen Shiver (AIF Consultant)			

Discussion

Amy Baker began the meeting by discussing the Decision Algorithm flowchart (see attached handout). The flowchart illustrates the process for determining the analytical technique to be used for special impact session requests.

Amy then shared that REMI is in the process of developing a new module for state specific tax analysis. The development is in the very early stages and REMI offered to work with Florida in developing the specifications. EDR is considering working with REMI to develop the tax module to use for dynamic analysis of tax proposals for Florida. REMI is also exploring developing a state specific budget module. Because both modules are in the early stages of development, there is no documentation available beyond the standard REMI information.

Amy shared the draft procedure for analyzing special impact session requests (see handout). She covered the changes made to the document based upon comments provided from previous meetings.

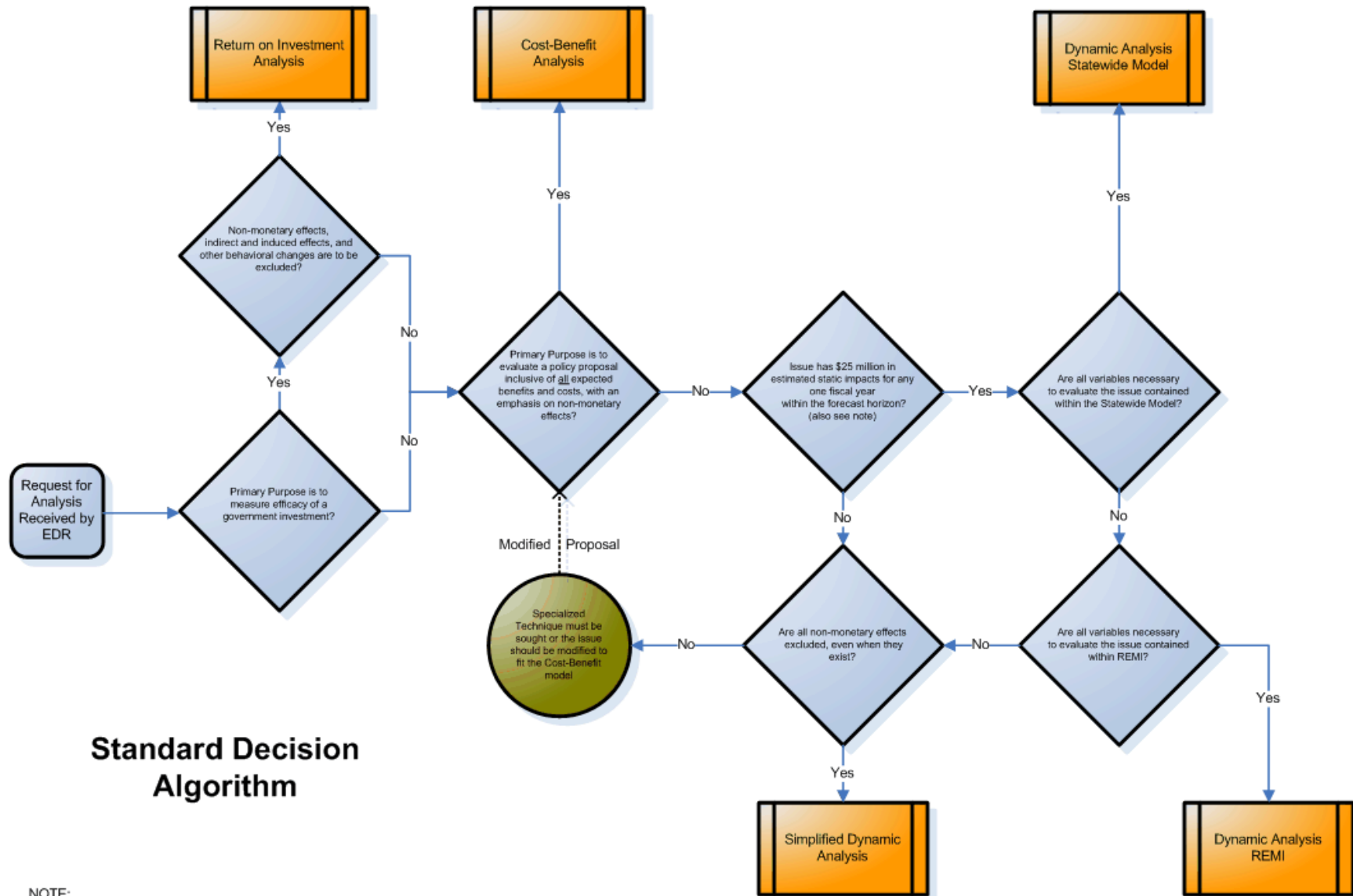
Amy then discussed the components of the draft report required by SB 1178 on the protocols and procedures developed to govern the use of the statewide policy analysis tools. There was discussion about the recommendations made regarding a Balanced Budget requirement and Use of Generated Gains. There was also a discussion about the Discount Rate to be used in Cost-Benefit and Return-on-Investment analyses.

Amy stated that the report, recommendations and procedures would probably not receive final approval from the President and Speaker until December or January. She also stated that to implement the conference structure specified in the procedures would require a law change that will not occur until session. Therefore, special impact sessions for the 2011 session will probably be handled in a similar manner as in past sessions. If needed, there may be a possibility of employing a hybrid approach during the 2011 session to use some of the processes and techniques addressed in the report.

Amy ended the meeting by stating that the project was on schedule to produce the final report on December 1. (NOTE: The report was produced on December 1, and can be accessed at: <http://edr.state.fl.us/Content/statewide-policy-analysis-tools/Report-FinalVersion.pdf>)

MEETING HANDOUTS

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Standard Decision Algorithm

NOTE:
 Failing the first condition, does the issue have a significant effect on macroeconomic variables from within a particular segment of the economy?

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Procedure

A. Request Procedure

1. At any time, either the President of the Senate or the Speaker of the House of Representatives may request a special impact estimating conference for a proposed fiscal policy change by notifying the Office of Economic and Demographic Research (EDR).
2. To assist in the identification of proposals, either presiding officer may accept and forward a member request for a special impact estimating conference.
 - a. To identify a proposal for consideration by the President of the Senate or Speaker of the House of Representatives, a legislative member shall send a written request to his or her presiding officer no later than November 15th of each year. At a minimum, the request must include the following information:
 - 1) A brief description of the proposal to be analyzed;
 - 2) Identification of any similar legislation or appropriation line items from prior legislative sessions; and
 - 3) Identification of an individual who may be contacted in the event that staff requires further clarification of the request.
 - b. The presiding officer will determine at his or her discretion whether a member request should be evaluated using the statewide policy analysis tools. If so, the presiding officer will forward the request to EDR.

B. Start-Up Procedure

1. Upon notification by the President of the Senate or the Speaker of the House of Representatives that a special impact estimating conference has been requested, EDR must analyze the request and determine which analytical technique should be used to evaluate the proposal. To make this determination, the following criteria shall be used:
 - a. Return On Investment
 - 1) The primary purpose of the analysis is to evaluate the efficacy of a government investment. As used herein, a government investment is an expenditure of funds or a tax preference for a targeted purpose.
 - 2) The analysis involves strictly monetary effects to the state (e.g. increased revenues or savings). In this regard, any non-monetary effects resulting from the proposal (externalities and social benefits and costs) are excluded from the analysis.
 - 3) The analysis is to measure direct effects relating to the proposal. In this regard, the analysis excludes indirect and induced effects and other behavioral changes resulting from the proposal.

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- 4) Use of this technique is not limited by a dollar threshold.
- b. Cost-Benefit Analysis
- 1) The primary purpose of the analysis is to evaluate a policy proposal inclusive of all expected benefits and costs, regardless of whether the proposal relates to an appropriation or a tax change.
 - 2) The proposal may have monetary effects, but the emphasis is on the inclusion of non-monetary effects. Non-monetary effects (externalities and social benefits and costs) are included in the analysis only after monetization (conversion to dollars).
 - 3) The analysis is to measure direct effects, behavioral changes, and/or indirect and induced effects relating to the proposal to the extent feasible.
 - 4) Use of this technique is not limited by a dollar threshold.
 - 5) This technique is an alternative to dynamic analysis when all expected benefits and costs are taken into consideration, and:
 - a) The proposal has an estimated static impact of less than the threshold for dynamic analysis in all fiscal years; or
 - b) The statewide model and REMI do not include the appropriate variables to evaluate the proposal.
- c. Dynamic Analysis / Scoring
- 1) The primary purpose of the analysis is to evaluate proposed changes that are likely to result in indirect and/or induced effects in addition to the direct effects. These effects frequently occur when a proposal changes the economic behavior of the general public which in turn affects macroeconomic variables (e.g. stimulate increased savings).
 - 2) The proposal primarily relates to monetary effects, but may also have – to a lesser extent – non-monetary effects. Limited non-monetary effects (externalities and social benefits and costs) are included in the analysis only after monetization (conversion to dollars) and when strictly necessary.
 - 3) Use of this technique is restricted to proposals with a certain minimum estimated static impact. Prior to the post-implementation evaluation of the statewide model by EDR, the threshold for consideration under dynamic analysis is \$25 million in estimated static impacts for any one fiscal year within the forecast period. The limit is based on the model's inability to accurately detect movements in the economy caused by smaller changes. However, EDR has the discretion to conduct dynamic analysis on smaller proposals whose effect on macroeconomic variables is significant, but limited to a particular segment of the economy.
 - 4) The proposal only affects variables that are contained within the current production version of the statewide model or REMI. Because of the phased schedule for the statewide model, it shall be used only for tax proposals during the first twenty-four months after it becomes operational; thereafter it may also be used for budget proposals.

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d. All Other Specialized Techniques

- 1) Simplified Dynamic Analysis --- this is a modified cost-benefit technique used when all non-monetary effects are excluded, even when they exist.
 - a) The primary purpose of the analysis is to evaluate proposed changes that are likely to result in indirect and/or induced effects in addition to the direct effects. These effects frequently occur when a proposal changes the economic behavior of the general public which in turn affects macroeconomic variables (e.g. stimulate increased savings).
 - b) The proposal primarily relates to monetary effects, but may also have – to a lesser extent – non-monetary effects. Limited non-monetary effects (externalities and social benefits and costs) are included in the analysis only after monetization (conversion to dollars) and when strictly necessary.
 - c) Use of this technique is limited. Prior to the post-implementation evaluation of the statewide model by EDR, the simplified dynamic analysis is used when either:
 - i. The estimated static impacts are less than \$25 million for all fiscal years, or
 - ii. The variables required for the analysis are not contained within the current production version of the statewide model or REMI.

2) Additional Techniques

- a) The primary purpose of the analysis is to evaluate proposed changes that are unique in nature and do not meet the requirements for any of the other techniques described above.
- b) To determine if an additional technique exists, EDR shall conduct an academic survey after the distinctive characteristics of the proposal have been identified. If an appropriate technique is found and the resources exist to use it, the analysis will be conducted and a detailed description of the technique will be included in the final report.
- c) If a feasible technique is not found, the proposal shall be modified to fit within a Cost-Benefit analysis.

2. EDR shall transmit to the President of the Senate, Speaker of the House of Representatives, and the Executive Office of the Governor:

- a. A brief description of the proposal,
- b. The determination of a specific analytical technique,
- c. A request for designation of principals, and
- d. The identification of any extraordinary time and/or cost requirements in those instances where EDR anticipates they will be necessary for a thorough analysis (e.g. the need to purchase additional data related to the proposal).

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3. The four principals for each special impact conference shall be comprised of professional staff of the Executive Office of the Governor designated by the Governor, the coordinator of the Office of Economic and Demographic Research, professional staff of the Senate designated by the President of the Senate, and professional staff of the House of Representatives designated by the Speaker of the House of Representatives. The coordinator of the Office of Economic and Demographic Research may designate other professional staff within that office to act as principals on the conferences.

C. Meeting Procedure for Special Impact Estimating Conference

1. Upon designation of an estimating conference and principals, EDR shall schedule and coordinate a minimum of three meetings for each special impact session in accordance with the procedures identified for the specific analytical technique being deployed.

a. Return on Investment Procedure

- 1) During the first scheduled meeting, the Conference shall receive public input and identify participants and other affected parties that may have information relevant to the analysis of the proposal.
- 2) Prior to the second scheduled meeting, EDR shall prepare a list of potential returns and investment costs for consideration by the Conference.
- 3) During the second scheduled meeting, the Conference shall receive public input and conduct a public discussion of the potential returns and investment costs associated with the proposal. After the discussion, the Conference shall reach agreement on which returns and investment costs are probable, as well as adopt key assumptions.
- 4) Prior to the third scheduled meeting, EDR shall collect the necessary data; conduct the analysis; and, prepare a draft report for consideration by the Conference.
- 5) During the third or final meeting (whichever is later), the Conference shall receive public input and adopt a final report according to the procedure specified herein.

b. Cost-Benefit Procedure

- 1) Prior to the first scheduled meeting, EDR shall develop a list of externalities and social costs and benefits that are potentially associated with the proposal under consideration.
- 2) During the first scheduled meeting, the Conference shall receive public input and identify participants and other affected parties that may have information relevant to the analysis of the proposal. EDR will present the list of externalities and social costs and benefits associated with the proposal. After discussion, the Conference shall finalize the list.
- 3) Prior to the second scheduled meeting, EDR shall further investigate the externalities and social costs and benefits associated with the proposal. EDR shall also develop initial estimates to monetize the social costs and benefits.

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- 4) During the second scheduled meeting, the Conference shall receive public input and conduct a public discussion of the externalities and social costs and benefits associated with the proposal and their monetization. After the discussion, the Conference shall reach agreement on which externalities and social costs and benefits are probable, as well as adopt key assumptions.
- 5) Prior to the third scheduled meeting, EDR shall collect the necessary data; conduct the analysis; and, prepare a draft report for consideration by the Conference.
- 6) During the third or final meeting (whichever is later), the Conference shall receive public input and adopt a final report according to the procedure specified herein.

c. Dynamic Analysis / Scoring Procedure

- 1) Prior to the first scheduled meeting, EDR shall develop a list of model input assumptions that are potentially associated with the proposal under consideration.
- 2) During the first scheduled meeting, the Conference shall receive public input and identify participants and other affected parties that may have information relevant to the analysis of the proposal. EDR will present the list of potential model input assumptions associated with the proposal. After discussion, the Conference shall finalize the list.
- 3) Prior to the second scheduled meeting, EDR shall further investigate the model input assumptions associated with the proposal.
- 4) During the second scheduled meeting, the Conference shall receive public input and conduct a public discussion of the model input assumptions associated with the proposal. After the discussion, the Conference shall reach agreement on which model input assumptions are probable, as well as adopt key assumptions.
- 5) Prior to the third scheduled meeting, EDR shall:
 - a) Collect the necessary data;
 - b) Conduct the analysis;
 - c) Produce both static and dynamic results;
 - d) Produce concurrent results from REMI whenever the statewide model is used; and
 - e) Prepare a draft report for consideration by the Conference.
- 6) During the third or final meeting (whichever is later), the Conference shall receive public input and adopt a final report according to the procedure specified herein.

d. All Other Specialized Techniques Procedure

- 1) Prior to the start of the first scheduled meeting, EDR shall develop any information that is necessary for consideration by the principles.
- 2) During the first scheduled meeting, the Conference shall receive public input and identify participants and other affected parties that may have information relevant to the analysis of the proposal.

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- 3) During the second scheduled meeting, the Conference shall receive public input and conduct a public discussion of the key assumptions associated with the proposal. The Conference shall reach agreement on those assumptions.
 - 4) Prior to the third scheduled meeting, EDR shall collect the necessary data, conduct the analysis, and prepare a draft report for consideration by the Conference.
 - 5) During the third or final meeting (whichever is later), the Conference shall receive public input and adopt a final report according to the procedure specified herein.
2. The principals of the special impact conferences shall abide by the state public records requirements.

D. Reporting Procedure

1. No session shall conclude until a final report has been adopted by the Conference.
2. At a minimum, the final report shall contain the following information:
 - a. Executive summary;
 - b. List of principals and participants;
 - c. Description of the proposal;
 - d. Identification of the policy analysis technique deployed;
 - e. Description of key data and sources;
 - f. Explanation of assumptions;
 - g. Explanation of the results, including key drivers;
 - h. Presentation of numerical results in the form of a point estimate:
 - 1) To accompany dynamic analysis/scoring using the statewide model, point estimates will also be provided for the static impact and the dynamic impact from REMI;
 - 2) To accompany dynamic analysis/scoring using REMI or the simple one-sector dynamic general equilibrium model, point estimates will also be provided for the static impact;
 - i. Estimated impacts by fiscal year; and
 - j. Discussion of the risks to the estimates, including identification of differences in pivotal assumptions and drivers that could result in different estimates. A range of estimates may be provided to substantiate the discussion of risks.
3. Draft versions of the final report shall be prepared by EDR and modified as necessary by the Conference prior to adoption.

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E. Adoption Procedure

1. All actions taken by and the final report adopted by the Conference shall be agreed upon by consensus.
2. For the purpose of this procedure, "consensus" means the unanimous consent of all of the principals of a consensus estimating conference.

F. Transmission Procedure

1. After adoption by the Conference, EDR shall transmit the final report to the presiding officers.
2. After transmission, the final report shall be posted on the EDR website along with any other documents deemed to be official information of the conference.

G. Use of Results Procedure

1. Prior to the post-implementation evaluation by EDR and legislative action regarding the full integration of Conference results into the budget development and revenue estimating processes, all final reports shall be used as supplemental information for the state planning and budgeting system.
2. Prior to the post-implementation evaluation by EDR and legislative action regarding the full integration of Conference results into the budget development and revenue estimating processes, the results shall not be used to modify the state's official Financial Outlook Statement of funds available and estimated expenditures, nor shall they be used as the sole basis for an adjustment to any official forecast adopted by a consensus estimating conference established pursuant to ss. 216.133-216.137, Florida Statutes.

H. Revision Procedure

1. EDR may amend these procedures by submitting written notification of the proposed change to the President of the Senate and Speaker of the House of Representatives. If after two weeks from the date of notification, neither presiding officer has objected, the change will take effect.
2. EDR may amend any protocols or other documents related to these procedures by posting a red-line version on its website for two weeks prior to the effective date.