TESTIMONY OF
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Before the Appropriations and Financial Affairs Committee
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LD 1733 – *"An Act to Require the Revenue Forecasting Committee to Prepare Economic Impact Statements for Certain Legislation"*

Senator Rotundo, Representative Sachs, and members of the Appropriations and Financial Affairs Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services (DAFS). I am testifying at the request of the Administration and on behalf of the Revenue Forecasting Committee (RFC) members who work in DAFS Against LD *1733 – "An Act to Require the Revenue Forecasting Committee to Prepare Economic Impact Statements for certain Legislation."*

The three DAFS members of the RFC are the State Budget Officer, the State Economist, and the Associate Commissioner for Tax Policy.

This bill requires that, at the request of 3 or more members of a legislative committee, the Revenue Forecasting Committee (RFC) must prepare an economic impact statement for any legislation before that legislative committee or legislation being prepared by that legislative committee that creates a new workforce program or amends employment, labor, or taxation laws. The request must be made by the Legislators within 7 days of the legislation's referral to the legislative committee. The RFC must issue the economic impact statement within 21 days of the receipt of the request and not later than the final work session on the legislation. Any amendment introduced that would affect the economic impact statement of the original legislation must also include an economic impact statement.

The RFC may coordinate with relevant state agencies and departments to gather data, analysis, and other information necessary to prepare the economic impact statement.

The requirement that the RFC prepare an economic impact statement for any legislation that creates a new workforce program or amends employment, labor or taxation laws is beyond the current capabilities of the committee. Compliance with such a requirement during the legislative session would require a significant increase in resources to the Office of the State Economist, the Bureau of the Budget, the Office of Tax Policy, the Department of Labor's Center for Workforce Research and Information (CWRI) and likely the Office of Fiscal and Program Review. Accordingly, we recommend that this requirement be eliminated. Economic impact statements should only be required in rare cases, and only with the joint approval of Legislative Leadership and the Administration.

Additionally, some of the reporting requirements, specifically the first three items in Part C, require the RFC to offer opinions on policy. Representatives who are statutory members of the RFC should be insulated from the political aspects of policymaking in order to uphold independence and maintain trust in revenue forecasts and estimates.

Ideally high-quality evidence on the impact of similar policies could inform an economic impact statement, but in many cases such evidence will not exist, or the evidence may be ambiguous or conflicting. At best, these types of analyses provide qualitative guidance on the merits of a policy, but not the hard numbers required by this bill. See the attached explanation of the model(s) currently available to the Office of the State Economist that would be used to provide an economic impact analysis.

In conclusion, the bill as currently drafted is not feasible with existing resources – the committee members all have more than full-time day to day commitments and our economic modeling tools are not all encompassing; puts at risk the independent and apolitical structure of forecasts and impacts; and in most cases will likely not allow for enough time or capacity to comprehensively meet the requirements.

The Administration looks forward to working with the Committee on the bill; representatives from the affected offices will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.

Explanation of Current Economic Modeling Capabilities

Office of the State Economist

Economic impact models are commonly used to estimate the economic effects of proposed legislation. The Office of the State Economist maintains a REMI PI+ statewide, 70 industry sector model that is a conjoined input-output and econometric model that allows for the estimation of economic and fiscal impacts. While a useful tool, there are several limitations to the model. Economic impact models rely on certain assumptions and data inputs that may not accurately reflect the real-world complexity of economic systems or fully consider the distributional impacts on different demographic groups. The REMI PI+ model currently maintained by the Office is most effective for analyzing large-scale expenditures with a statewide impact and does not allow for regional-specific impacts. Neither does it allow for direct analysis of proposed tax changes. For those, a separate add-on model (Tax-PI) would have to be purchased and maintained. The PI+ model also operates off a baseline forecast developed by REMI. While some components of the forecast can be calibrated to match the forecast from the Consensus Economic Forecasting Commission, the Commission does not forecast every variable in the model (GDP, for example) and so the calibration is not exact.

The typical turnaround time to model economic impacts for proposed revenue forecasting legislation can vary depending on several factors, such as the complexity of the proposed legislation, the availability and quality of data, and the sophistication of the economic impact model being used. In general, it can take several weeks to several months to produce an economic impact analysis for proposed legislation, especially if the analysis requires input from multiple stakeholders or a review by outside experts. However, some simpler analyses may be produced in a shorter time frame. It's worth noting that the speed of the analysis should not come at the expense of accuracy or rigor. Accurate economic impact analysis requires careful consideration of assumptions and data inputs, and sufficient time for review and refinement.

Much of the work in an economic impact analysis is done up-front in the form of background research, identifying (and accessing) relevant data, and careful consideration of a variety of contextual issues developing the assumptions and inputs that go into the model runs. For example, the specific timing of impacts, the industries and income lines that would be affected, and the exact amounts that would impact these variables are just a few of the inputs needed. Despite best efforts, the inputs to the model may be incomplete or inaccurate, which can lead to errors and limitations in the resulting economic impact statement. Often, multiple iterations are needed where inputs are developed, the model is run, inputs are adjusted, the model is run again, and so on. This can be a very time-consuming process depending on the scope of the proposed change. The final results then show the impact to the region as a whole in the projected time period going forward for a number of measures, such as population, GDP, employment by industry sector, components of personal income, earnings by sector, and government spending, to name a few.

However, there are several items in the required statement list that are outside the scope of either the REMI PI+ or the Tax-PI model. In particular, items 1 (a determination of whether the legislation is the most cost-effective method for achieving the stated purpose), 2 (a determination of whether the legislation represents the most efficient appropriation or allocation of public and private resources to achieve the stated purpose), and 7 (a determination of the effect of the legislation on competition within the State, with other states and with regions, on the regulated community and on potential global competition) are not effects that would be captured by the results of the economic impact model. While economic impact analysis does provide information on jobs created, it would not identify which jobs would be enhanced, retained, impaired, or devalued.