Fiscal Highlights

What's a Dynamic Fiscal Note? - Thomas E. Young

Have you ever wanted to look at the backward linkages and behavioral responses associated with your bill? If so, then you might be looking for a dynamic fiscal note.

What's a dynamic fiscal note?

Simply put, a dynamic fiscal note accounts for the potential effects your bill might have on productivity, investment shifting, spending, and other economic factors. All of these factors are analyzed using REMI (a structural forecasting software) and various statistical models, with the final assumptions up to the Legislature (or Legislator). (As a note, dynamic fiscal notes are not cost-benefit analyses. See the difference here.)

During the 2013 interim, the Fiscal Analysts Office performed two dynamic fiscal notes. The following details one of them: a proposal to eliminate the sales tax imposed on purchases by manufacturers of products with an economic life of less than three years.

Manufacturers Sales Tax Exemption Example

Currently, the state offers a sales tax exemption for manufacturers' purchases of items with an economic life of three years or greater. The proposed bill would expand the sales tax exemption to items purchased with an economic life of less than three years.

Static (traditional) Fiscal Note

The static fiscal note simply takes a projection of the taxable base and multiplies by the sales tax rate. This is what the Fiscal Analyst's Office currently provides for each bill. The following figure is what the static fiscal note for this issue looks like. The results show that state revenue change is -$30 million in FY 2015 and -$31.5 million in FY 2016.

FISCAL NOTE   No Bill Number   2013 Interim

SHORT TITLE: Sales Tax Exemption for Manufacturing Equipment Purchases, LT 3 Year Life

SPONSOR: No Sponsor   Note: Subject to change during the normal fiscal noting process

CURRENT PRACTICE STATE GOVERNMENT **STATIC** IMPACT (UCA 36-12-13(2)(b))

Enactment of this bill reduces sales tax revenue to the General Fund by $17,293,000 in FY 2015 and by $18,158,000 in FY 2016. The bill also reduces Restrcited Revenue (earmarks) by $12,707,000 in FY 2015 and $13,342,000 in FY 2016.

Revenues	FY 2014	FY 2015	FY 2016
General Fund, **static**		$ (18,158,000)	$ (18,158,000)
General Fund, One-time, **static**		$ 865,000	
Restricted Revenue, **static**		$ (12,707,000)	$ (13,342,000)
Total		(30,000,000)	(31,500,000)

Appropriations	FY 2013	FY 2014	FY 2015
	$0	$0	$0
Total	$0	$0	$0

NET STATE GOVERNMENT **STATIC** IMPACT

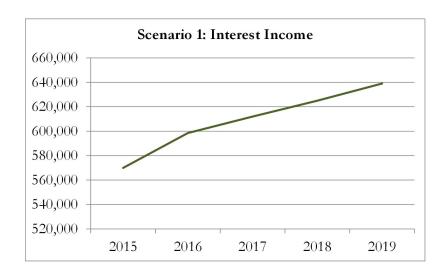| STATIC	FY 2014	FY 2015	FY 2016
Net All Funds (Rev.-Approp.) (**static**)	0	(30,000,000)	(31,500,000)
Net General & Education Funds (Rev.-Approp.) (**static**)	0	(17,293,000)	(18,158,000)

A Dynamic Fiscal Note

The dynamic fiscal note is meant to be more accurate and relevant for policymakers. The starting point is the static fiscal note. After arriving at the static effect, the dynamic fiscal note calculates backward linkages and industry effects from proposed legislation.

The dynamic fiscal note is divided into four scenarios. The four scenarios represent options for the Legislature.

Scenario 1

The first scenario is if the Legislature decides to appropriate the revenue associated with the sales tax into the rainy day fund. Essentially, the fiscal note shows the gain in interest income going from $570,000 to $639,000.
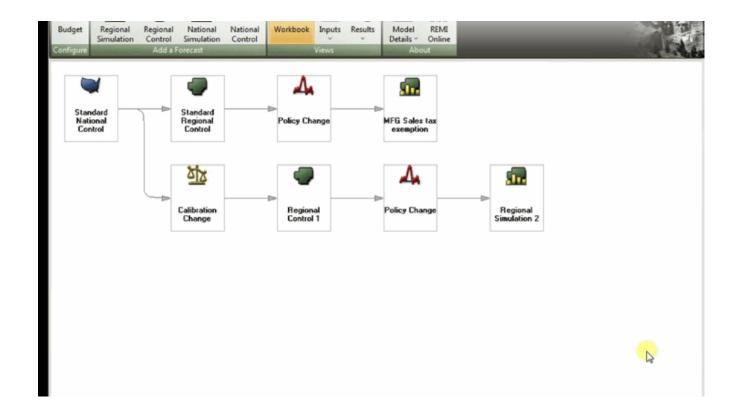
Scenario 1: Interest Income

Year	Interest Income
2015	~570,000
2016	~598,500
2017	~612,000
2018	~625,000
2019	~639,000

(Chart: y-axis from 520,000 to 660,000; line rising from 2015 to 2019)

DYNAMIC FISCAL NOTE — No Bill Number — 2013 Interim

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SCENARIO 1: DO NOTHING — SCENARIO 1

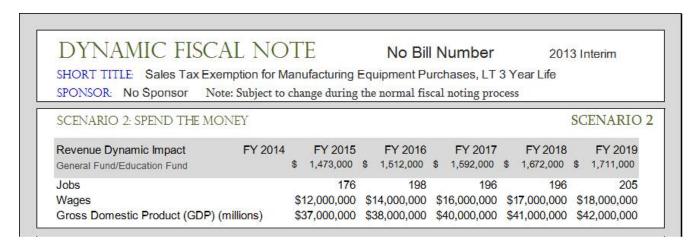| Revenue Dynamic Impact	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Fund Appropriation		($30,000,000)	($31,500,000)	($33,075,000)	($34,729,000)	($36,465,000)
General Fund Restricted		$30,000,000	$31,500,000	$33,075,000	$34,729,000	$36,465,000
Interest Income		$570,000	$598,500	$612,000	$625,000	$639,000
Jobs		0	0	0	0	0
Wages		$0	$0	$0	$0	$0
Gross Domestic Product (GDP)		$0	$0	$0	$0	$0

Scenario 2

What if the state spends the money rather than saving it? That's scenario 2 below, with the associated industry effects from state government spending.

Note: the first figure below - an animated GIF - shows the analysis in REMI. (*the figure should animate automatically once you scroll over it; the figure loops indefinitely*). Once the model is "closed", REMI gives the associated employment, production, and other factors connected with state government spending.
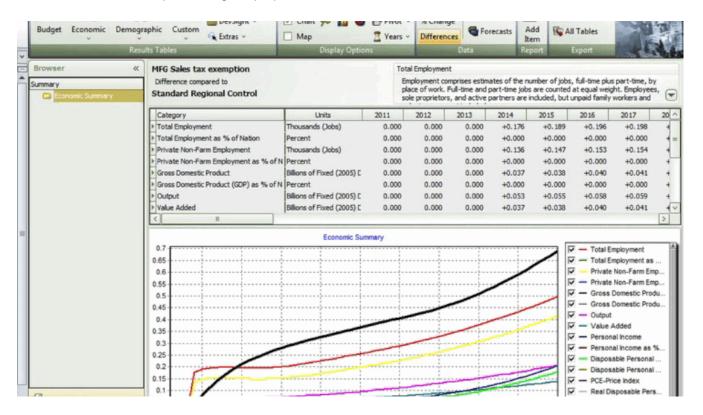
The figure below shows the baseline revenue associated with state government spending.
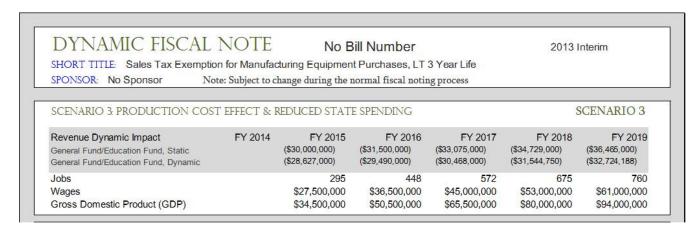

DYNAMIC FISCAL NOTE No Bill Number 2013 Interim

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SCENARIO 2: SPEND THE MONEY SCENARIO 2

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenue Dynamic Impact						
General Fund/Education Fund		$ 1,473,000	$ 1,512,000	$ 1,592,000	$ 1,672,000	$ 1,711,000
Jobs		176	198	196	196	205
Wages		$12,000,000	$14,000,000	$16,000,000	$17,000,000	$18,000,000
Gross Domestic Product (GDP) (millions)		$37,000,000	$38,000,000	$40,000,000	$41,000,000	$42,000,000

Scenario 3

What if the state implements the manufacturers sales tax exemption? That's scenario 3 below. Essentially, scenario 3 accounts for the effect a reduction in the cost of doing manufacturing businesses has on state economic conditions.

As with scenario 2 above, the analysis is shown in two charts. The first is the REMI analytic component. The second is the dynamic fiscal note table, showing the revenue, employment, wages, and GDP effects from implementing the proposal.
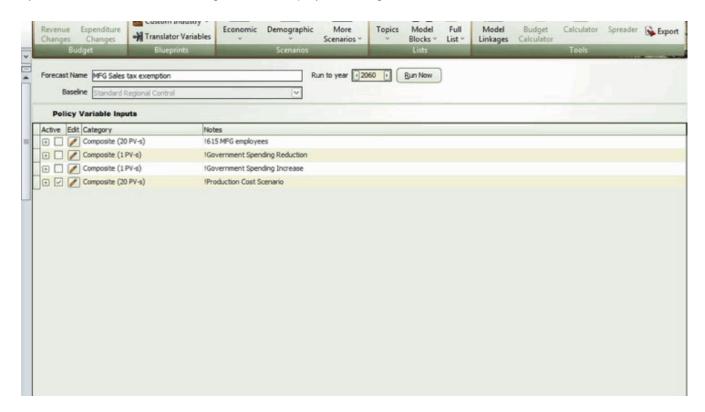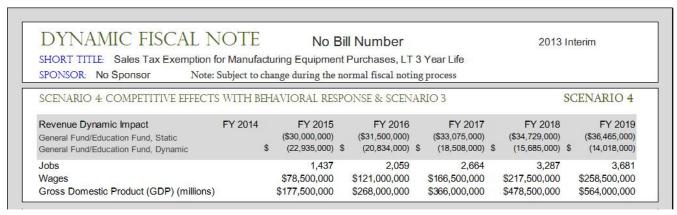

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SCENARIO 3: PRODUCTION COST EFFECT & REDUCED STATE SPENDING — SCENARIO 3

Revenue Dynamic Impact	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Fund/Education Fund, Static		($30,000,000)	($31,500,000)	($33,075,000)	($34,729,000)	($36,465,000)
General Fund/Education Fund, Dynamic		($28,627,000)	($29,490,000)	($30,468,000)	($31,544,750)	($32,724,188)
Jobs		295	448	572	675	760
Wages		$27,500,000	$36,500,000	$45,000,000	$53,000,000	$61,000,000
Gross Domestic Product (GDP)		$34,500,000	$50,500,000	$65,500,000	$80,000,000	$94,000,000

Scenario 4

The last scenario relates to whether there are any behavioral shifts, beyond the production cost impact of scenario 3, associated with the sales tax decrease. As an example of one possible magnitude, scenario 4 has a direct increase in manufacturing industry employment of +615 jobs after the first few years.

As with scenario 2 and 3, the following two charts are the analytic component in REMI and the dynamic fiscal note table showing revenue, employment, wages, and GDP effects.

After running the numbers through REMI, we provide various statistics as background.

Overall, during the 2013 interim, the Fiscal Analysts Office reviewed two dynamic fiscal notes: the above example regarding an expansion of the sales tax exemption for manufacturers and a proposal to eliminate the personal exemption component of the taxpayer tax credit calculation.

If you'd like a dynamic fiscal note on your proposal, you know where to find us.

(As a note, dynamic fiscal notes take more time and may have increased risks associated therewith. Additionally, the Fiscal Analysts Office does not own the REMI software right now.)