



The Art—and Necessity—of Writing Fiscal Notes

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A fiscal note is a written estimate of the costs, savings, revenue gain, or revenue loss that may result from implementation of requirements in a bill or joint resolution—in other words, a summary that estimates the cost savings or increases, or revenue increases or losses that may result if a bill is enacted into law. The note's context and financial impact help legislators, policymakers, and state officials understand the implications of their decisions on public-sector entities including local governments.

The need for local governments to submit fiscal notes that have a forceful impact is greater now than ever. Each session of the state legislature produces bills that could affect a local government's bottom line (for example, by exempting items, like food or diapers, from sales tax or requiring municipalities to cover new expenses). This is not meant to be malicious—legislators are trying to act in the best interest of their constituents—but the perhaps unforeseen impact these bills could have at the local level can be problematic. For

instance, states such as South Dakota and Missouri had a food-related sales tax reduction initiative, while states such as Colorado, Florida, Georgia, New Mexico, and Virginia introduced property tax relief initiatives.¹ In Missouri, the City of Columbia's Finance Department estimated that if food sales were exempted from local sales and use taxes, the city's tax revenue over the following five years could decrease by approximately \$30 million.

Significant financial effects like this could be even more detrimental to smaller governments that rely substantially on sales and property tax. A decrease in their revenue sources could be significant, even affecting essential services like public safety and health. This scenario forces policymakers to weigh the trade-off between decreased taxes and reduced public services.

How to prepare a fiscal note

Once a bill is proposed at the state House or Senate, it is available for public comment and fiscal note submission, and local leadership can usually sign up for a notification. After being notified, the local government leadership can review the bill and draft a corresponding fiscal note.

Reading and conceptualizing the impact of the bill. Organizations responsible for submitting the fiscal note, including local governments, should familiarize themselves with the proposed bill by following the steps below:

1. Identify the bill number and title.
2. Read the bill summary to understand the primary intent—what would be the financial impact if the corresponding bill passes?
3. Keep track of the bill from when it is drafted to when it is finally brought into law, as there may be several versions. For each version, note any new or deleted language, altered phrasing, references to codes and laws/statutes, repeals of current legislation, or other variables that could have a fiscal impact.

Summarize the impact and identify any changes in programs, services, regulations, processes, policies, or taxes and fees (including accelerated or postponed periods for collection) that would be implemented with the passing of the bill. Note any specific time constraints such as temporary provisions, effective dates, or deadlines.

A fiscal note's primary purpose is to provide the most accurate estimate possible of the expenditure and revenue impacts the proposed legislation would create.

Identifying fiscal issues. To estimate the fiscal impact of a bill, the local administration should consider what the bill does, and which parts of the bill have a fiscal impact (for example, revenue increases or losses and cost increases or savings) and then make assumptions about the bill's implementation. Common key questions include:

- What primary sources of revenue and costs are affected by the bill? Would either of these be distributed over time, monthly, seasonally, or yearly? Would any factors change from year to year?
- Will the local government be able to cover the additional expenditures or costs the bill may impose?
- Will implementing the bill require staff time? What types of positions are needed to implement and maintain a program or service enacted by the bill? Will the bill have any initial, one-time costs? Any outlined expansions or terminations of a program or service?
- Does a bill on a tax or fee affect any existing revenue sources such as sales, use, and property tax revenue?

Fiscal analysis

A fiscal note's primary purpose is to provide the most accurate estimate possible of the expenditure and revenue impacts the proposed legislation would create. Take care to avoid analysis that intentionally influences an audience's perception of the bill based on opinion or merit. Instead, concentrate on presenting factual and objective information while avoiding excessive use of jargon or acronyms.

Baseline for preparing fiscal note estimates. In Missouri, the fiscal note estimates are based on the laws and funding in effect at the time the fiscal note is written, as well as the consensus revenue estimate (CRE) prepared by the governor and lawmakers at the beginning of a legislative session. Local government leadership should check their state's rules before writing the note. A fiscal note estimate assumes no changes to other laws, funding, or CRE except those resulting from the bill's implementation.

Summarize key assumptions. While estimating the fiscal impact of a bill, summarizing the key assumptions is the most critical part. Below are highlights of a few key assumptions:

Population, described as the number of people living in a specific community, is a crucial metric for determining a bill's cost or revenue impact. Commenters may use historical population data from the Census Bureau's American Community Survey (ACS)² to make assumptions about future changes in the community's needs. Growing populations may lead to higher demand for healthcare and public transportation or increased enrollment in public schools. In contrast, a declining population may lead to lessening sales tax revenues due to lower demand. In either case, population is critical in capturing potential increases and decreases in municipal administrations' demand, revenue, or expenditures.

Inflation rate, defined as the change in prices of goods and services,³ is

another crucial metric for determining long-term impacts on revenue or expenditures. Local governments can obtain monthly and yearly Consumer Price Index (CPI) data by region from the Bureau of Labor Statistics (BLS), but future CPI can only be obtained from third-party organizations such as Moody's, Oxford Economics, and S&P. These forecasts create the base assumption in developing fiscal impact projections.

Proportion is defined as a rate or ratio either calculated based on historical data or an assumption of the existing statutes and ordinances such as sales tax or property tax rate. The ratio or rate is further used to estimate the fiscal impact of any proposed bill. For example, based on historical data, the analysts at the City of Columbia, Missouri, estimated 15 percent as the share of food sales over total sales for calculating the fiscal impact of eliminating food-related sales on the city's future revenue collection. Currently, the city collects a two percent sales tax on food sales as well. Without calculating these proportions, estimating the impact of a proposed policy could be difficult.

While making assumptions about the future, the analyst is responsible for validating that they're consistent with the past. Population, inflation, and proportion are primary factors in fiscal note estimations, but other assumptions play a crucial role when estimating the impact of a bill. For example, the price elasticity of demand

is the ratio of demand when price changes. Suppose a bill proposes a sales tax increase on a luxury good or service. The price increase could substantially decrease demand, undermining the intended effect of increased revenue, so additional attention may be needed to avoid over- or under-estimating the sales tax-related revenue.

Fiscal impact estimation

Begin with a summary of the bill. Outline the proposed legislation and compare it to current law, excluding any parts of the bill that have no fiscal impact.

Ideally, each estimate may cover a financial period of five fiscal years, starting with the bill's implementation date—this will help the state legislature better understand the fiscal impact of any proposed bill on the local governments. Each section of the bill with a fiscal impact needs to be identified and estimated. The types of fiscal implications that need to be identified are cost increases/savings and revenue increases/losses.

Labeling a fiscal note with a monetary impact can sometimes be challenging, but fiscal note impact statements are crucial for addressing the changes in legislation that can impose additional financial burdens on the municipalities. A fiscal note with no stated fiscal implication, however, will likely have a very limited impact.



CASE STUDY 1

City of Columbia's fiscal note on food-related sales tax reduction bill.

Proposed bill HB 1464 introduced a sale and use tax exemption for food-related retail sales across all municipalities in Missouri. For the City of Columbia, food-related sales tax contributes around 15 percent and 1.5 percent of all sales and use tax revenue, respectively. If this bill were passed, Columbia would experience a reduction of at least \$9.5 million each fiscal year from 2025 onwards. [See Exhibit 1.]


EXHIBIT 1 | Fiscal note analysis for City of Columbia—HB 1464

Categories	Proj. FY 24	Proj. FY 25	Proj. FY 26	Proj. FY 27	Proj. FY 28	Proj. FY 29	Proj. FY 30
Sales Tax	\$61,488,855	\$62,718,632	\$63,973,005	\$65,252,465	\$66,557,514	\$67,888,665	\$69,246,438
Food-Related Sales Tax	\$9,223,328	\$9,407,795	\$9,595,951	\$9,787,870	\$9,983,627	\$10,183,300	\$10,386,966
Use Tax	\$8,278,083	\$8,443,644	\$8,612,517	\$8,784,768	\$8,960,463	\$9,139,672	\$9,322,466
Food-Related Use Tax	\$124,171	\$126,655	\$129,188	\$131,772	\$134,407	\$137,095	\$139,837
Food-Related Sales and Use Tax	\$9,347,500	\$9,534,450	\$9,725,139	\$9,919,641	\$10,118,034	\$10,320,395	\$10,526,803



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Conclusion

In short, a fiscal note is a summary of the fiscal impact that proposed legislation would create for a government, specifically cost increases or savings, and revenue increases or losses. For local governments, especially cities with limited budgets, well-crafted fiscal notes are critical to highlighting the potential risks, and this information helps legislators make decisions that will protect municipal services and stability. Fiscal notes play a critical role in protecting the fiscal health of states and local governments. Informative and factual fiscal notes ensure that lawmakers are fully informed and can make decisions that balance both the financial stability of municipalities and the needs of their citizens. 

CASE STUDY 2

Fiscal note for increasing costs.

If a bill triggers additional staff time, for example, the constitutional amendment to Article X, Relating to County Tobacco Cigarette Taxes, a provision allowing local governments across Missouri to set and control taxes on tobacco—it may call for additional full-time equivalent positions (FTEs) to oversee collection and administration of these taxes. In this case, provide information about personnel costs and the number of FTEs required to fulfill the task. The costs should be consistent with the current wages and pay grade and include any changes in the number of FTE positions. In the cost estimation, also record additional expenses such as operating supplies, training, travel, and service charges.

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¹ See 2024 State Tax Ballot Measures at taxfoundation.org/research/all/state/tax-ballot-measures-2024/.

² View the American Community Survey Data at census.gov/programs-surveys/acs/data.html.

³ The U.S. Bureau of Labor Statistics' Inflation Overview is available at bls.gov/bls/inflation.htm.