

Q: Why doesn't each fiscal note contain the same information?

A: Routine rule changes, including language clarification and reorganization, water reclassifications, and updating references will have less analysis than a major policy change that could have substantial costs or benefits. The simplest type of rule change is called **de minimus**. These usually have no or minimal impacts and the fiscal note will provide a brief description of the rule change and explain why no impacts are expected. Rules with impacts under \$500,000 are **non-substantial**. The notes for non-substantial rule changes contain a description of the rule change and quantify benefits and costs by affected group. When a rule is **substantial**, the division must consider alternatives to the selected rule and perform risk analysis that describes the types of uncertainty and assumptions that may affect policy impacts. For substantial rules, the benefits and costs will be presented by group and over a number of years. Benefits and costs are adjusted for inflation and discounted to reflect the current value of money.

Q: Who writes fiscal notes and how are they reviewed?

A: The staff member or members most familiar with the subject material write DENR fiscal notes. After staff has produced a draft, division managers review it. Then staff members work with the department economist to refine the models, assumptions, and calculations. At this level, much work is done to ensure that the note language is easy to read and understand. After department approval, OSBM will request changes and the draft note passes back and forth between the division and OSBM until there is consensus. Then OSBM approves the note and places it on their website (http://data.osbm.state.nc.us/pls/pbis/dyn_osbmweb_rules.show?p_arg_names=context&p_arg_values=eco). Usually a note sent to the Environmental Management Commission for review has received at least verbal approval from OSBM.

Q: When does DENR write a fiscal note?

A: The department writes a fiscal note for all proposed rule changes. The division starts a fiscal note after final rule language is selected. This focuses the note on assessing costs and benefits for the preferred option. For substantial notes with impacts greater than \$500,000, the alternatives section will describe alternative policies considered by stakeholders but ultimately not selected for the final rule.

Q: How long does it take to create and have a fiscal note work through the entire process?

A: For extremely large notes, staff may spend several years working on the fiscal note. For minor rules, a first draft may be created in a matter of days. DENR has only had one substantial rule (the well injection rules) make it through the entire process to become a new rule and the rulemaking process took about a year. Smaller notes may be done in 5-6 months.

Q: What should I look for when reading a fiscal note?

A: The note should describe what problem the rule changes is meant to address, how the policy choice was selected, and what stakeholder groups were part of the policy formation process. Potential fiscal and non-fiscal impacts are summarized either by rule change or by affected group. Will this change affect any local governments, state agencies, private companies or property owners? Which groups of people or environmental features will benefit from the proposed change? How major or significant are these impacts and will they affect some people more than others? Some impacts can be measured using dollars and others defy financial valuations. Un-quantified benefits or costs should be described qualitatively. The note should discuss assumptions and limitations that shape the analysis and list any sources used to formulate estimates. Consider if the assumptions, data, and impacts are reasonable.

If you have other questions about DENR fiscal notes, please contact Sara Nienow at sara.nienow@ncdenr.gov or (919) 707-8518.

Cost-Benefit Analysis is a systematic process for calculating and comparing benefits and costs of a policy change.

Major steps to conduct a cost-benefit analysis:	Example using a new air pollution control program:
1. Identify the impacts and their benefits and costs.	Benefits: 100 less cases of asthma Costs: 10 new pollution control technologies
2. Measure the costs and benefits on a common yardstick (dollars).	Benefits: Avoided costs of illness, more healthy and productive workers = \$5 million Costs: Cost of control technologies = \$2 million
3. Compare the costs and benefits.	Benefits (\$5 million) - Costs (\$2 million) = Net Benefits (\$3 million)

Common Terms:

- **Baseline** is the best assessment of the way the world would look absent the proposed rule change (counterfactual). The baseline includes current statutes/rules.
- **Net Present Value (NPV)** is a way of taking into account the time value of money and of comparing benefits to costs (or comparing different alternatives), which may not occur in the same timeframe.
- **Discounting** is a way of bringing costs and benefits occurring at different times to a common time period. We are required to use a 7 percent discount rate.

Example

Cost = \$ 10 in Year 1, Benefit = \$100 in Year 2

Discount rate is **7%**

NPV of Cost in Today = $\$10/(1+.07)^1 = \9.3

NPV of Benefit in Today = $\$100/(1+.07)^2 = \87.3

Net Effect Today = $\$87.3 - \$9.3 = \$78$

- **Opportunity Cost** is the cost of something in terms of another opportunity forgone, or the benefits received from that opportunity. One good example is work time. By performing one activity, you are not performing another and there is a tradeoff.
- **Public goods** are benefits to society that are not traded in markets and do not have established prices. For example, clean, breathable air.
- **Use value** is defined as the value derived from the actual use of a good or service, such as hunting, fishing, bird watching, or hiking.
- **Non-use values** are values that are not associated with actual use, such as the desire to leave natural areas to our children or to save rare species.
- **Willingness to Pay (WTP)** is the maximum amount a person would be willing to pay, sacrifice or exchange in order to receive a good such as land conservation or to avoid something undesired, such as pollution.

Why are cost-benefit ratios not used to weigh public policy?

Although used to evaluate business investments, cost-benefit ratios are not used to evaluate policy choices because we seek to select the policy with the highest net benefits. For example, Policy A costs \$1 billion and produces benefits of \$10 billion. This provides a total net benefit of \$9 billion. It has a cost-benefit ratio of ten. Policy B costs \$10 billion and benefits of \$50 billion. This provides a total net benefit of \$40 billion. It has a cost-benefit ratio of five. Policy B is preferable because it has higher net benefits even though the cost-benefit ratio is lower.

If you have other questions about environmental economics, please contact Maggie Monast at mmonast@edf.org or (919) 881-2919.