



# **Financial Impact Estimating Conference: Required Economic Analysis**

Office of Economic and Demographic Research

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# CS/CS/HB 5: Ballot Measures

The passage of CS/CS/HB5 which—among other things—made a number of changes to the FIEC’s traditional process. Most importantly, the bill made the following adjustments:

- Specifies a 75-day timeframe instead of 45 days from start to finish.
- Expands the maximum length of the financial impact statement from 75 words to 150 words.
- Requires an additional analysis of the estimated economic impact on the state and local economy. This requirement broadens the analysis from the more limited review of public sector impacts previously considered.
- Requires an additional analysis of the overall impact to the state budget.

*“... the Financial Impact Estimating Conference shall complete an analysis and financial impact statement to be placed on the ballot of the estimated increase or decrease in any revenues or costs to state or local governments, estimated economic impact on the state and local economy, and the overall impact to the state budget resulting from the proposed initiative.”*

# Economic Analysis

- A comprehensive policy analysis technique that evaluates the direct, indirect and induced economic impacts of a policy change, where:
  - Direct economic effects – are the changes in expenditures made by the industry(ies) directly impacted by a change in policy. Most analyses by the various estimating conferences focus on direct effects, which are generally static, immediate and “first round” effects.
  - Indirect economic effects – are the changes in expenditures made by industries that supply goods/services to the directly impacted industry(ies).
  - Induced economic effects – are most commonly measured as the changes in expenditures by households whose income is changed by the direct and indirect activity; however, other examples exist.
- In this case, the goal is to predict and quantify the probable path of economic responses over time to the change brought about by the petition initiative.
  - Projections are relative to a forecast of the expected path of the economy absent the change caused by the petition; this is referred to as the economic baseline.
  - In some cases, there will be no discernible or probable effects.

# Tool: Statewide Model

- The Statewide Model is a state-of-the-art, customized, dynamic computable general equilibrium model (CGE) originally developed for Florida by Monash University (Melbourne, Australia) in 2011. This model:
  - Contains a vast amount of data to replicate the Florida's economy, tax structure, and state budget.
  - Uses hundreds of mathematical equations to account for the relationships (linkages and interactions) between the various economic agents, as well as likely responses by businesses and households to changes in the economy. Started with 388 equations with 1,699,000 total elements within those equations.
  - Has a time dimension that adheres to the state fiscal year (July 1 to June 30) to be useful in the state government budgeting process.
  - Allows different programs to be evaluated on the same footing.
  - Can be modified to reflect research results and targeted developments specific to the analysis being performed.

# Analysis

- When the Statewide Model is deployed to evaluate economic effects, the model is shocked using static analysis to develop the initial or direct effects attributable to the petition-induced change that is under review. In this analysis, the direct effects (shocks) will likely consider:
  - The demand for and supply of recreational marijuana and the impact on directly related fields.
  - Potential increase in sales tax revenues.
  - Cost of regulation and method of payment.
  - Impact on the Criminal Justice System.

# Standard Variables

Based on prior FIECs, the core economic variables that are available for reporting are:

1. Population...focuses on the change in population projections caused by altered economic circumstances.
2. Jobs...focuses on the change in employment projections caused by altered economic circumstances.
3. Personal Income...nearly two-thirds of this metric typically comes from compensation of employees.
4. Personal Income Per Capita...measures the average income received per person in a given year. It is calculated by dividing personal income by population.
5. Gross Domestic Product...the total value of goods and services produced within the state during one year; based on final output.
6. State Government Revenues and Expenditures...largely conditioned by Florida's tax policy.

# Proposed Style of Model Results

- Relative to the economic baseline, the change in each of the eight Standard Variables will be reported numerically with the appropriate direction indicated (+ or -). Positive changes improve the economy relative to the baseline, while negative changes reflect a weakening of the baseline condition.
- In addition, each variable's change will be reported as a percentage of the variable's total value in order to provide context.

# Key Protocols

- The Statewide Model almost always treats Florida as a single region...this means that typically the analysis will be generalized statewide. A specific local economy will only be considered in rare circumstances where the localized impact must be considered due to a unique feature of the proposed amendment under review (for example, the Slots amendment).
- Balanced budget requirement by fiscal year...however, this does not mean that the budget is strictly held to official forecasts (for example, the inclusion of federal dollars grows the available revenues for expenditure).
- The underlying model is calibrated for current budget policy and the official economic and revenue forecasts which comprise the baseline. All analyses performed in a given year will be compared to the same baseline.