



## **Revenue Forecasting in Michigan**

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**Fiscal Analysts Seminar  
National Council of State Legislatures  
August 29, 2012**

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### **Consensus Revenue Estimating Conference**

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- **Required by law to be held each second week of January and third week of May**
- **Principals of the conference are**
  - the director of the Senate Fiscal Agency
  - the director of the House Fiscal Agency
  - the State Treasurer or Budget Director
- **Additional conferences can be called at any time by one of the principals**
- **Forecast economic conditions and revenue for current fiscal year and the next two ensuing fiscal years**
- **January conference used as basis for the Governor's budget recommendation**
- **Primary focus is General Fund and School Aid Fund**
  - Transportation forecast not addressed by the fiscal agencies
  - No consensus process for other funds

### **Agency Estimates**

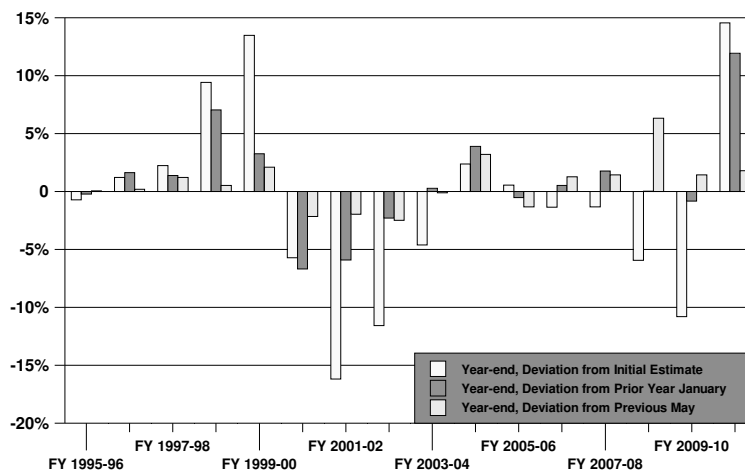
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- **Forecasts rely on multiple sources**
  - Global Insight (primarily national, economics only)
  - University of Michigan's Research Seminar in Quantitative Economic (state/national, economics/revenues)
  - In-house forecasts (revenues)
- **Baseline forecast (absent tax changes)**
  - New baseline period adopted each January
  - Reflect changes in revenue attributable to the economy
- **Net revenue forecast (actual revenue)**
  - Implicitly tracks tax expenditures until rolled into new baseline
- **Formal report is issued by each agency**
- **Estimates presented at formal conference, along with outside forecasts and presenters**

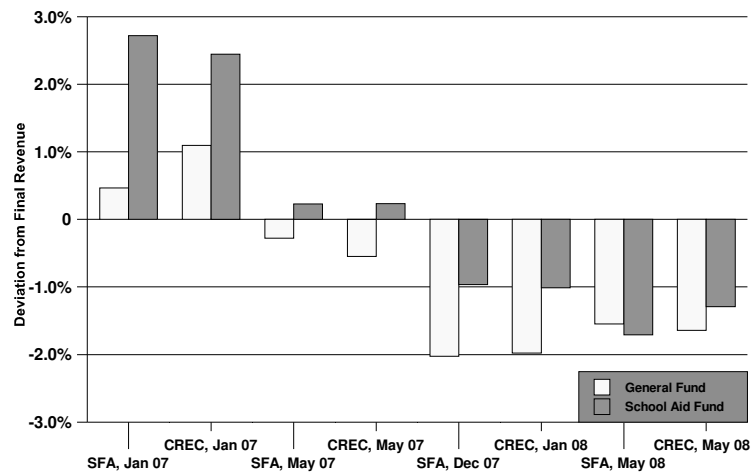
## Challenges

- **Continuity Issues**
  - Legislative actions
  - Economic turning points
  - Discrete economic events
    - Major strikes, schedule for auto industry activity
    - New lottery games
    - Events in neighboring states
  - Audit/Enforcement actions
  - Bookclosing adjustments
- **Different agencies choosing the same items to roll into new baseline**
- **Model specification**
- **Budget impact of small deviations**
- **Understanding of the estimates**
  - Consensus process
  - Non-participants and/or non-technical
  - Point estimate

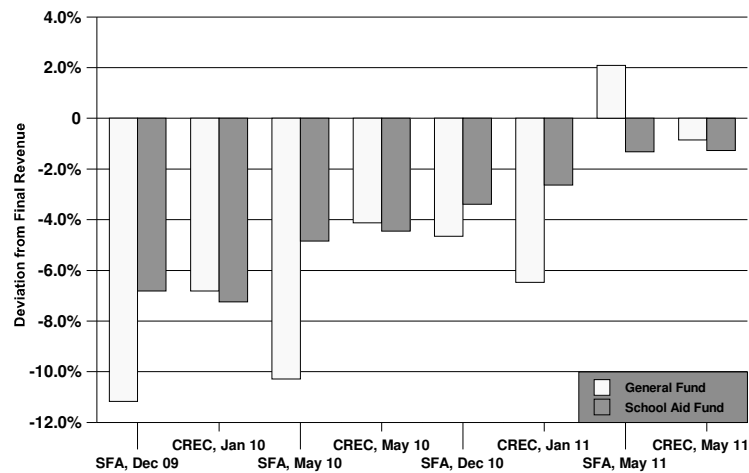
### Consensus Forecast Accuracy



### Forecast Accuracy, The FY 2007-08 Perspective



## Forecast Accuracy, The FY 2010-11 Perspective



## Other Aspects of the Forecasting Process

- **Each agency develops its own monthly spreads**
  - Monthly reports track revenues
  - Monthly spreads generally not published
- **Recent forecasts have been dominated by the estimated impacts of tax changes**
  - Less information
  - More volatile tax streams
  - Administrative aspects
  - Transition aspects