

# JLBC Staff Revenue Forecast Development

## NATIONAL INPUTS

- ◆ US Blue Chip – The Blue Chip Economic Indicators (US Blue Chip) provides a monthly “consensus” forecast of national economic indicators such as Gross Domestic Product, Consumer Price Index, personal income, corporate profits, housing starts, and various financial indicators. The forecast panel is made up of over 50 participants from the private sector, government, and academia. The projections of the individual participants are averaged to produce a “consensus” forecast.
- ◆ DRI-WEFA – JLBC Staff contracts with DRI-WEFA, one of the leading national economic forecasting firms. DRI-WEFA provides updated comprehensive long-term forecasts of a variety of national economic indicators on a monthly basis. The monthly updates include a baseline forecast, as well as an optimistic and pessimistic version. DRI-WEFA also maintains a large database of historical and forecasted indicators.
- ◆ Other States – JLBC Staff monitors revenue developments and issues in other states through monthly publications such as the State Policy Reports, the State Revenue Report, the State Fiscal Brief, and particularly through ongoing surveys and analyses conducted by the National Conference of State Legislatures.

## STATE INPUTS

- ◆ Finance Advisory Committee (FAC) – To obtain a neutral peer review of its economic and revenue forecasts, the JLBC Staff established the FAC over 20 years ago. The FAC consists of approximately 15 members, and includes economists and other financial experts with both business and academic backgrounds in the state. The FAC meets publicly at least 3 times a year to discuss economic issues, and to review and discuss JLBC Staff revenue forecasts. All receive an invitation to attend.
- ◆ Economic and Business Research – JLBC Staff contracts for the provision of economic and revenue forecasts with the Economic and Business Research (EBR) Program at the University of Arizona. The EBR model uses over 200 variables related to Arizona’s economy and the model is updated 4 times a year. The model contains over 100 equations, which are updated on an ongoing basis to accommodate changes in the data and the economy.
- ◆ Arizona Blue Chip – The Arizona Blue Chip provides a monthly consensus forecast of Arizona economic indicators such as personal income, retail sales, building permits, unemployment, etc. The forecast panel is made up of 20 participants from both the private and public sectors.

# JLBC Staff Revenue Forecast Development

## OTHER INPUTS

- ◆ Monthly Reports – Revenues are monitored formally by JLBC Staff on a monthly basis, and the current status of revenue collections in relation to the forecast is reported to legislators twice a month. There is a preliminary look at the previous month's revenues distributed around the 10<sup>th</sup> of each month (Monthly Fiscal Highlights), and the final estimates of prior month's revenues (Revenue Highlights), which is distributed around the 20<sup>th</sup> of each month.
- ◆ "Confidence" Factor – While some private sector economists provide optimistic and pessimistic scenarios, the typical forecast represents a best "guess" of the most likely outcome. With a "most likely" outcome, there is as much probability in falling short of the forecast as there is in exceeding it. When translating economic forecasts into a state budget revenue estimate, policymakers may choose to have more than a 50% probability of meeting or exceeding the forecast. This increased "confidence" factor is important with a balanced budget requirement and when states have low levels of reserve funds. A higher confidence level, such as at the 80% level, will result in a state budget revenue forecast that is more conservative than the prevailing forecast for the economy as a whole.

## OUTPUTS

- ◆ JLBC Staff Forecast – The JLBC Staff uses the national and state level inputs to produce its own state General Fund revenue forecast. The main forecast is published each January with the release of the budget recommendations. These projections are usually updated in March before the conclusion of budget discussions. The forecast may also be revised in the fall depending on the state of the economy.
- ◆ OSPB Forecast - The Governor's Office of Strategic Planning and Budgeting uses a similar process to derive their own revenue forecast. While they use some of the same inputs, they also contract with their own independent outside consultants for assistance.
- ◆ Consensus Forecast – While JLBC Staff and OSPB consult with one another on revenue estimates, each office develops its own independent projections. As a matter of practice, policymakers usually request that the two offices develop a consensus forecast. This process usually involves averaging the two projections.