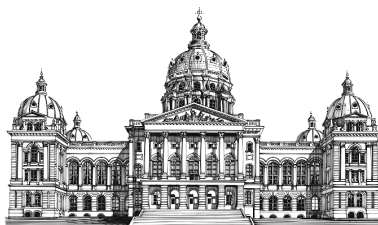


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# Iowa Legislative Fiscal Bureau

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## Revenue Estimating Conference Accuracy

### ISSUE

The accuracy of revenue estimates made by the Revenue Estimating Conference (REC) continues to be an area of interest and misconception.

### AFFECTED AGENCIES

Legislative Fiscal Bureau  
Department of Management

### CODE AUTHORITY

Section 8.22A, Code of Iowa

### BACKGROUND

During the November 1991 Fiscal Committee meeting, information on revenue estimating was presented by the Legislative Fiscal Bureau and the Department of Management. Items discussed included the procedure and inputs used by Iowa's REC and its historical range of accuracy, and procedures used by other states.

Recommendations adopted by the committee at that time were:

- A panel of advisors should be established to present information and recommendations to the REC prior to their decision-making.
- The panel of advisors should, at least 1 week prior to the meeting of the REC, provide to the REC and the public, written recommendations of revenue estimates and include a rationale.
- The REC should develop a written rationale for the estimate of revenues to be available to the public and the legislature within 3 working days of the REC meeting.
- The REC should publish the minutes of its meetings and the meetings of the REC panel of advisors, including the estimates of all members and the estimate rationales. The REC should also publish an end-of-year report that details revenue estimates and actual collections and analyzes the difference.

- The REC should give public notice of intent to meet at least 2 weeks in advance of meeting, unless all 3 members agree to waive this requirement. All members must be present and agree to a revenue estimate.

### **CURRENT SITUATION**

These recommendations were incorporated into SF 2041 which passed the Senate during the 1992 Legislative Session, but was not debated in the House.

The attached charts represent the range of accuracy of the REC for Fiscal Years 1988, 1989, 1990, 1991, and 1992. Some national experts suggest that a statistically acceptable margin of error for a revenue forecast during normal times should fall within 1% to 3% of the estimate. Margin of Error for REC estimates each fiscal year is shown below:

<u>Fiscal Year</u>	<u>Margin of Error Range</u>	<u>Margin of Error Average</u>
1988	-3.48% to -1.09%	-2.47%
1989	-9.10% to -1.50%	-6.18%
1990	-2.63% to 2.17%	-0.49%
1991	-0.08% to 1.80%	1.00%
1992	-1.89% to 1.32%	0.06%

A report on revenue forecasting completed by The Council of State Governments in 1992 summarized the following points:

- There continues to be a movement by states toward consensus estimating (shared responsibility between the executive and legislative branches).
- 14 states have recently reviewed or are in the process of reviewing their state's official revenue forecasting procedures in an effort to improve forecast accuracy.
- States are integrating more sophisticated forecasting techniques into the revenue forecasting process.
- The use of long-range forecasting as a planning tool is on the rise.
- More details on this report, or a copy, are available through the contact person listed below.

### **BUDGET IMPACT**

For a \$3.0 billion budget, every 1.0% variance represents \$30.0 million.

STAFF CONTACT: Alice Wisner (Ext. 14612)

## REVENUE ESTIMATING CONFERENCE ERROR FY 1988 - 1992

