

Economic and Revenue Forecast Council

Strategic Plan

Vision Statement: To promote state government financial stability by producing an accurate forecast of economic activity and General Fund revenue for the legislature and governor to be used as the basis of the state budget.

Mission Statement: To combine statistical models and the best available data with sound judgment based on knowledge of the state's economy and revenue system to produce forecasts in a collaborative environment.

Statutory Authority: RCW 82.33

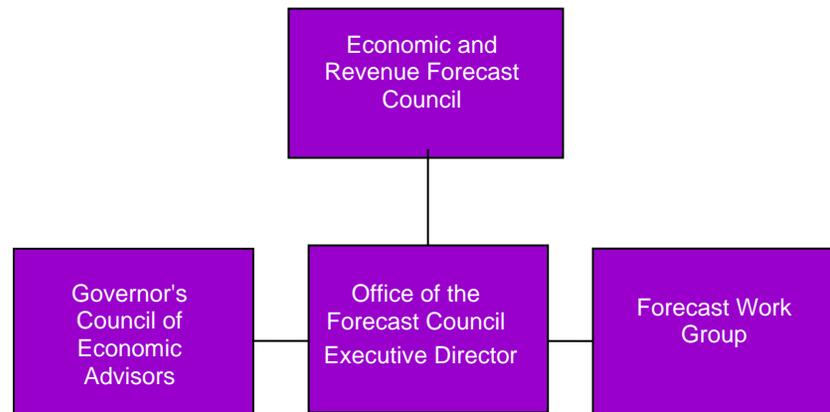
Goal: Accurately forecast economic activity and state tax revenue for Washington State.

Objectives:

- Prepare four times a year General Fund-State revenue forecast for approval by the Economic and Revenue Forecast Council.
- Produce baseline, optimistic, and pessimistic forecasts of the national and state economy four times a year for approval by the Economic and Revenue Forecast Council.
- Prepare monthly reports to the Economic and Revenue Forecast Council and Workgroup Members, comparing tax collections with estimates.

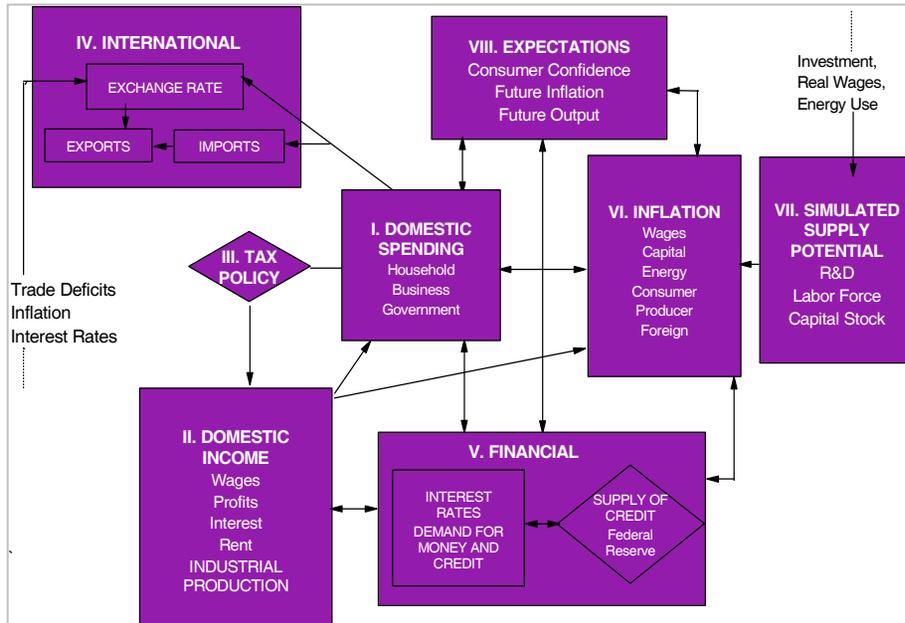
Strategies (Formal Process):

1. Forecast Council Workgroup Meeting
2. Preliminary Economic Forecast
3. Governor's Council of Economic Advisors
4. Economic Forecast Review
5. Forecast Council Workgroup Meeting
6. Final Economic Forecast
7. Revenue Forecast Review and Adoption

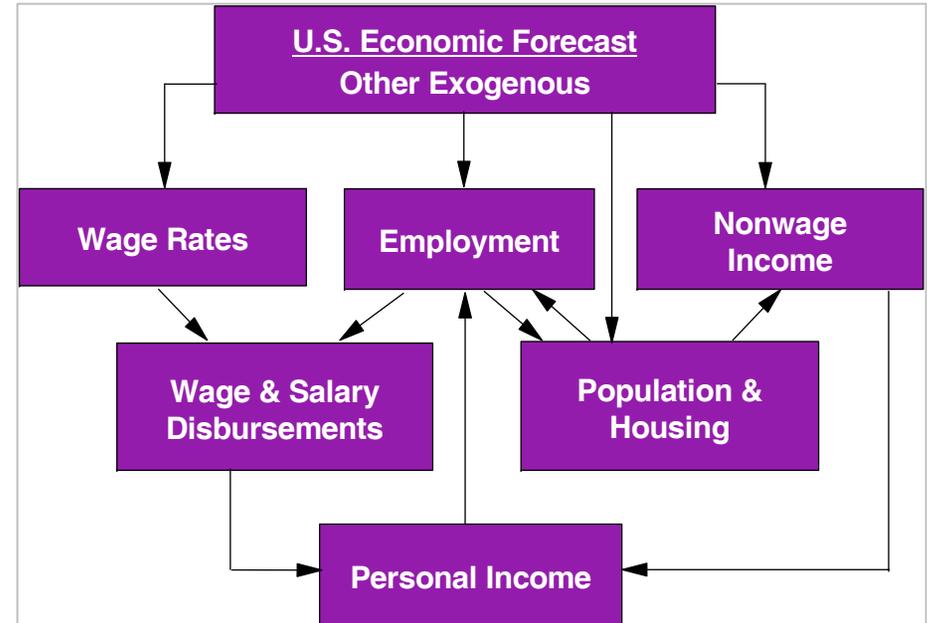


Strategies (Inputs to the models):

Global Insight Model:



Washington Model:



Strategies (Enhancements and reviews of the process and inputs):

1. Agency will review and assess changes to tax laws and administration practices and reflect changes in the forecast.
2. The Agency will examine state tax collections which provide insight for the Washington revenue forecast and produce monthly collection reports.

3. The agency will review the details of the adopted revenue forecast in a quarterly publication and provide forecast detail and explanation regarding the forecast components.
4. In order to provide accurate forecasts, the agency will conduct continual review of data and methodology.
5. Collaborate with the Research Division of the Department of Revenue on revenue data related issues.

Goal: Enhance service delivery standards that demonstrate to our customers the professionalism and respect citizens deserve from state government.

Objectives:

- Maintain consistency and increase turnaround and response time to customer inquiries.
- Discover and accommodate changing needs.

Strategies:

1. Issue biennial customer surveys and analyze feedback.
2. Update web site to fulfill requests from customer survey results.
3. Provide strategic plan to Economic and Revenue Forecast Council for review and allow opportunity for constructive feedback.
4. Revisit need for Web site update to deliver information to customers in a format that meets their needs.

Performance

Analysis:

Analyzing the performance of the ERFC is difficult for several reasons. First, there are no consistent, readily available data on forecast accuracy for agencies like the ERFC in other states. Second, assessing forecast accuracy requires accounting for the impacts of legislation, one-time revenue changes that cannot be forecast (e.g., audit payments, unclaimed property sales), and changes in data reporting.

However, the agency does regularly take steps to improve the forecast. The preliminary economic forecast is compared to forecasts by members of the Governor's Council of Economic Advisors. We use this independent body to gauge what economists outside state government see as a realistic projection of the states economic

Performance

Analysis (continued):

activity. Historically, if a significant gap between the agency forecast and that of the GCEA exists, the agency has extensively reviewed and made changes to the forecast using their input when appropriate.

In preparation for each quarter's forecast, staff review trends in economic and revenue data to look for changing patterns. All data series are re-evaluated as they are updated to identify deviations from the last forecast and to determine how those deviations will impact the results produced by our economic and revenue forecasting models.

Assessment of External Challenges and Opportunities:

The accuracy of the economic and revenue forecasts is strongly affected by the external environment. The primary external factors affecting forecast accuracy are revisions to external data and unforeseeable events. The economic and revenue forecasts depend upon data from a variety of sources, including the state and federal government. These data often undergo extensive and unpredictable revisions after they are used in a forecast. The revisions frequently extend several years backward into history. While the Economic and Revenue Forecast Council continuously monitors the accuracy of the data to the best of its ability, it cannot control or predict the full extent of data revisions. These revisions affect not only local-level data used in our state model, but also data that feeds into the national model that we buy from Global Insight. A forecast based upon data that undergo large subsequent revision may therefore be based upon economic assumptions that later prove untrue, diminishing the accuracy of the forecast.

However, we actively work to understand data revision processes and to identify potential revenue changes due to administrative factors. We monitor the employment data collection and estimation techniques used by the US Bureau of Labor Statistics, are in frequent contact with the Employment Security Department to understand any changes in employment survey techniques, and work with the Department of Revenue to obtain advance notice concerning audit assessments or court cases which may affect the revenue forecast.

*Assessment of
Internal capacity
and financial
health:*

The Economic and Revenue Forecast is rare as it is one of the few state agencies that employs the same number of full time employees as it did when created. As the priorities of government are changing, the agency is in line with these priorities and continues to work effectively within its' capacity.

However, the 2007-09 Biennium has proved to be challenging in a number of areas. The agency had to address the retirement of two senior staff members and the loss of their extensive forecasting experience. A succession plan, prepared prior to the retirements, was implemented but the transition was not seamless. The decline in staffing levels resulted in additional workload being placed on remaining staff. The agency anticipates it will be at full staff level capacity by the beginning of the 09-11 Biennium. The agency acknowledges and will work towards identifying key activities by each position and adopting a means to transfer knowledge efficiently and effectively.

The current 2007-09 biennium has shown an increased demand on agency funds. With the impact of personnel changes and the demand for adequate technology, the agency's budget has felt significant strain. Additional sources of financial burden include attempting to increase travel expenses for professional development opportunities, data subscription costs, and technology expenditures. The "refresh cycle" mandate from the Information Services Board is hard for a small agency to meet. The funding to buy computers every three years can be tight, and in addition the agency loses productivity as the staff transitions to new computers. The agency has been successful in smoothing out this challenge by adding IT purchasing to the existing interagency agreement with the Department of Revenue. Because of this expansion of duties for the Department of Revenue's Computer Client Services, the Economic and Revenue Forecast Council will see an additional cost in the renewal of our biennial lease agreement.

Another financial constraint related to technology is the funding for a web site upgrade, which we have determined as a need for our customers satisfaction. The agency is considering using savings incentive funds to

*Assessment of
Internal capacity
and financial
health (continued):*

accomplish this much needed update. The agency also acknowledges a need to shift technology service delivery. We look forward to providing our customers more information via the agency website.

The agency's sole revenue source is the General Fund-State. Our funding has been adequate to sustain the agency financially but we do anticipate several challenges in the upcoming biennium. These include the potential for increased lease payments (especially if the Department of Revenue, with whom we must be co-located, chooses to move to a new location) and a lack of any clear method for funding staff merit pay increases, in addition to the technology, data subscription and staff development issues mentioned previously.