SYMPOSIUM ON THE MANAGEMENT AND POLICY
OF STATE AND LOCAL GOVERNMENT
REVENUE FORECASTING

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SYMPOSIUM INTRODUCTION

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This symposium focuses on the management and policy of state and local government revenue forecasting in the United States. Revenue forecasting is important since the revenue estimate drives the budgetary process. If forecasters under estimate or over estimate revenue, this will have an adverse impact on services and programs that state and local governments offer. With most of these governments having balanced budget requirements, there is additional pressure for more accurate estimates.

The literature on revenue forecasting in the public sector is sparse. Most of the research is conducted during times of fiscal stress. This may be attributed to the technical nature of the forecast. In this symposium, the argument is made that the forecast is more than merely producing a technical estimate; management and policy are critical factors that go into forecasting. The articles in this symposium were chosen because of their focus on management and policy.

Sun's article provides a framework that summarizes some of the most important forecasting studies. He indicates that the research attention devoted to forecasting methodologies far outweighs the attention given to revenue forecasting as an organizational activity. The study of government revenue forecasting should go beyond those technical concerns. In order to better organize the review of the literature, and gain a systematic understanding of the organizational aspect of government revenue forecasting, Sun's framework provides insights into the technical and political nature of the government revenue

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forecasting process. It shows that government revenue forecasting is both technical and political due to diverse pressures influencing the forecasting process. Sun's main contribution to forecasting research is the emphasize on the importance of management capacity.

Frank, Gianakis, and McCue's article provides a statistical evaluation of the implementation of Government Accounting Standards Board Statement 34 (GASB 34) on local government revenue forecasting. This research addresses local finance officers' perceived reaction to GASB 34 implementation with respect to forecasting accuracy. These authors believe that its implementation is intended to heighten accountability amongst public officials by a more transparent reporting system. Several of the GASB 34 requirements might serve as a catalyst to alter local finance officials' preferences for more advanced forecasting techniques. Their findings indicate that those communities that deploy forecasting software and whose finance directors have advanced degrees may be more likely to take GASB 34 implementation as a cue to enhance forecast accuracy. The main contribution of the Frank, Gianakis, and McCue article is the evaluation of institutional constraints on revenue forecasting accuracy.

Voorhees's article reports that a consistent underestimation bias is present in state revenue forecasting. His research has found underestimation bias in state revenue forecasting and evidence of it during a twenty-four year period between 1979 and 2002. The results show that states averaged a 1.45 percent underestimation error. This is important to public budgeting since forecasting loss is manifested in many forms including loss of potential salary increases, loss of reputation as a forecaster, and loss of job responsibilities. Voorhees's main contribution to forecasting research is to quantify the degree of underestimating revenue, which has obvious impacts on programs and services provided by state governments.

Beckett-Camarata's study describes the forecasting process in two local governments in Ohio, Summit County and the City of Canton. Previous research has not addressed the actual forecasting practices in different forms of government and the accuracy of those forecasts in Ohio's local governments. A descriptive case study approach was used to investigate the use and accuracy of formal and informal forecasting approaches.   Two conclusions were drawn from this study.   Formal

forecasting is more accurate than informal. The second conclusion is that Ohio's local governments undergoing fiscal stress still tend to focus more on cutting expenditures and less on improving revenue forecasting which could yield more accurate revenue estimates. One of the main contributions of Beckett-Camarata's article is the use of the comparative case study approach, which has not often been used in revenue forecasting research.

Stinson, who serves as the Minnesota state economist and supervises the preparation of the state's revenue forecast, examines some of the reasons for the large forecast variances observed in early 2000 using specific examples from forecasts made for the State of Minnesota. Key factors identified include inaccurate forecast for the United States' economic growth, inadequate, untimely and inaccurate data, imperfect models, and unrecognized changes in the structure of the economy. These factors came together and reinforced each other, ultimately producing a larger reduction in state revenues than could have been anticipated in advance of the recession in early 2000. Stinson reminds us that revenue forecasting models used in most states are quite sophisticated and much of the error in forecast comes from institutional factors outside the control of the forecaster and unrelated to the sophistication of the forecasting models used. Stinson's contribution to forecasting research is that advanced revenue forecasting techniques are not always the solution to increase forecasting accuracy, since they cannot predict turning points in the economy. Actors, institutions, and processes have a greater role than they are given credit for.

Two themes surface in these articles. First, future research should focus more on the managerial and political dynamics of revenue forecasting. The articles by Sun; Frank, Gianakis and McCue; and Voorhees allude to this in their discussion of institutional constraints. Second, there is a need for more case studies in revenue forecasting. This is illustrated by the articles of Stinson and Beckett-Camarata in their case studies of state and local government revenue forecasting.

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