**General Fund Revenue Forecasting Process**

Background

Sales tax, individual income and corporate income tax ("Big 3") make up approximately 90% of total General Fund revenue. The forecast for each of the "Big 3" revenues is developed using a 4-sector consensus process, which is based on averaging the results of the following 4 forecasts:

- The Finance Advisory Committee (FAC) panel forecast. This independent panel consists of 14 public and private sector economists that meet 3 times a year to provide the Legislature with guidance on the status of the Arizona economy.
- The University of Arizona Economic and Business Research (EBR) General Fund revenue base model. The model is a simultaneous-equation model consisting of over 100 equations that are updated on an ongoing basis to accommodate changes in the economy. The model uses over 200 variables related to Arizona's economy and is updated quarterly.
- EBR's conservative forecast model, and
- JLBC Staff projections

The remaining 10% of General Fund revenue is comprised of a number of smaller revenue categories, which are forecast by JLBC Staff.

Forecast Horizon

The revenue forecast is updated 3 times a year as a part of the FAC meetings generally held in October, January and April. The forecast horizon includes the current fiscal year and the following 3 fiscal years. In addition to the 4-sector consensus forecast described above, the Governor's Office of Strategic Planning and Budgeting (OSPB) is developing its own revenue forecast. The adopted budget is generally based either on the 4-sector consensus forecast, or the Governor's forecast, or some combination of the 2 forecasts.

Forecast Accuracy

As indicated in the *JLBC Baseline Revenue Estimates Compared to Executive Baseline Estimates* document, the accuracy of the forecasts (measured over an 18-month period) can vary considerably from one fiscal year to the next.

Small changes in the revenue forecast can have a significant effect on the budget. For example, a 1% error in the revenue growth rate over the 3-year time horizon of the budget would change the amount of available revenues by nearly $600 million in the third year.

The *comparison* document noted above provides the variance between actual revenue and the OSPB and JLBC forecasts 18 months prior to the end of the fiscal year. Between FY 2004 and FY 2014, the lowest annual variance was $125 million while the highest was $3.1 billion.

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