

Revenue Estimating Process – FY 2010 and FY 2011

At the end of October, 2009, the Revenue Estimating Committee met to consider the GF revenue estimate for FY 2011, which included a review of the current year's performance and possible revisions to the FY 2010 Sine Die estimate adopted earlier (back in March, 2009).

The consensus of the 5-member Committee recommended a revised General Fund (GF) Estimate for FY 2010 that was \$347.1M less than the Sine Die Estimate. As implied with this being a consensus, the \$347.1M reduction was not representative of any single particular member of the Committee but did represent "middle-ground" or a mutual agreement of all. In addition to this revised estimate of the GF, there was agreement between DFA staff and LBO staff that the estimate of Education Enhancement Funds (EEF) should be reduced by \$24.6M. Together this produced an estimated shortfall for FY 2010 of \$371.7M.

The Department of Finance and Administration (DFA) employs a multifaceted model to project revenue shortfalls. Beginning at the end of each August and monthly thereafter throughout the rest of the fiscal year, DFA prepares cash shortfall projections and a revenue analysis utilizing four techniques including:

- (1) Benchmarking against prior year collections;
- (2) Projecting the remainder of the fiscal year at the YTD average collection percentage as compared to estimated collections;
- (3) Projecting the remainder of the fiscal year at the current month collection percentage as compared to estimated collections;
- (4) Projecting the remainder of the fiscal year at an estimated certain collection percentage as compared to estimated collection.

The most accurate technique has proven to be #2 above.

Using this same methodology the DFA's review/analysis projects a shortfall in GF collections of \$397.9M. A short description of how this shortfall is determined is that actual collections for the GF were short \$183M at the end of December, 2009. Although December's actual collections were short 11.75% below the estimate, the year-to-date average shortfall was 8.1%. If the GF estimate for the remaining months in the fiscal year are projected to continue at the 8.1% rate it calculates to this \$397.9M projected shortfall for the year. The revised shortfall for the EEF is \$39.6M. Together these total \$437.5M.