



MEMO

To: [Rep. Charles Murphy, Chair, House Ways and Means Committee](#)
[Sen. Steven C. Panagiotakos, Chair, Senate Ways and Means Committee](#)

From: [David G. Tuerck, Executive Director, Beacon Hill Institute](#)

Date: 12/23/2010

Re: The BHI track record on revenue forecasting

Copies: [House Ways and Means Committee Members](#)
[Senate Ways and Means Committee Members](#)
Jay Gonzales, Secretary, Executive Office of Administration and Finance
Navjeet Ball, Commissioner, Department of Revenue
Michael J. Widmer, President and Secretary, Massachusetts Taxpayers Foundation

At the December 14 revenue hearing, I was asked by the Joint Ways and Means Committee to provide an accounting of the comparative success of the Beacon Hill Institute (BHI) in predicting tax revenues. This memo is our response to that request.

BHI has participated in the Committee's revenue hearings since 2003. Other participants include the Massachusetts Taxpayers Foundation (MTF) and the state Department of Revenue (DOR). Hearings are usually conducted in December and include revenue forecasts for the current fiscal year and for the next ("year ahead") fiscal year. These forecasts are used by the Governor and the legislature to frame a budget for the next fiscal year, which begins July 1.

We are pleased to report that our estimates have held up very well.

- Of the total of 13 revenue forecasts made since 2003 that can be compared with actual revenues, BHI was the most accurate eight times; MTF was most accurate three times; and the DOR was the most accurate only twice. The details are shown in Table 1.
- On average, over all 13 revenue forecasts, the BHI forecasts were closest to the actual revenue outcomes: the BHI error averaged 4.27%, compared to 4.34% for MTF and 5.07% for DOR.

To be sure, our revenue forecasts — as well as others — missed the shock to the national economy in 2008. But the record shows that when the economy is on a growth trend, the Institute's estimates have been relatively accurate and the most accurate of the three.

	Forecast is for:		
	Current FY	"Year ahead" FY	All forecasts
BHI	4	4	8
MTF	2	1	3
DOR	1	1	2
Total	7	6	13

Table 2 contains the raw results of all three entities' revenue estimates since December of 2003. From December 8, 2003 to December 13, 2007, all three groups consistently underestimated revenues (for the current fiscal year only). This was a period in which the U.S. and Massachusetts economies were recovering from the 2001 recession, after which revenues grew rapidly. BHI provided the most accurate forecasts over this period and did not record a single instance in which its forecast was off by \$1 billion or more.

In their presentations on December 13, 2007 and December 15, 2008, all three forecasters missed the severe downturn in FY 2009 revenues. In the FY 2010 estimate (provided on December 15, 2008) both BHI and MTF recovered from their two previous calls, while DOR was off by \$1.61 billion. In December 2009, BHI once again provided the most accurate forecast for the remainder of FY 2010.

Date of Testimony	Fiscal Year	BHI	MTF	DOR	Actual	BHI	MTF	DOR	Most Accurate
<i>Revenue (billions of dollars)</i>									
<i>Total</i>					<i>Deviation from Actual Total</i>				
16-Dec-09	FY 2010	18.64	18.28	18.42	18.54	-0.09	0.27	0.12	BHI
15-Dec-08	FY 2010	18.98	18.60	20.16	18.54	-0.44	-0.06	-1.61	MTF
	FY 2009	19.56	19.40	19.61	18.26	-1.31	-1.14	-1.35	MTF
13-Dec-07	FY 2009	21.04	21.12	20.82	18.26	-2.78	-2.86	-2.56	DOR
	FY 2008	20.20	20.62	20.17	20.88	0.68	0.26	0.71	MTF
16-Jan-07	FY 2008	20.27	19.85	19.72	20.88	0.61	1.03	1.16	BHI
	FY 2007	19.04	19.27	19.27	19.74	0.70	0.47	0.46	DOR
12-Dec-05	FY 2007	18.95	18.92	18.90	19.74	0.79	0.82	0.83	BHI
	FY 2006	18.03	17.94	17.93	18.49	0.46	0.55	0.56	BHI
6-Dec-04	FY 2006	17.56	17.37	17.39	18.49	0.93	1.12	1.10	BHI
	FY 2005	16.81	16.67	16.55	17.09	0.27	0.42	0.54	BHI
8-Dec-03	FY 2005	16.15	16.09	15.90	17.09	0.94	1.00	1.19	BHI
	FY 2004	15.53	15.42	15.23	15.95	0.42	0.54	0.72	BHI

We hope that this information will be helpful to the Committee in evaluating our forecast for FY 12 and for framing the FY 2012 budget.