Center on Budget and Policy Priorities

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Statement in Support of Proposed Ordinance 18-2073

An Ordinance to Establish A Consensus Revenue Forecasting Commission for Cook County

By

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Thank you for the opportunity to comment on Ordinance 18-2073. The budget process improvements included in this ordinance would make considerably more information available to policymakers and the public for budget preparation and debates. This would increase Cook County's ability to plan for the future, boosting the chances it will have the resources to invest in health care, transportation, and other building blocks of strong economic growth and widespread prosperity. Better planning also can reduce uncertainty about future funding levels and tax rates, improving the county's business climate. I recommend you adopt Ordinance 18-2073.

I am a Senior Fellow with the State Fiscal Project of the Center on Budget and Policy Priorities. I have spent a considerable time studying long-term structural reform of state budget and tax systems in my twenty years at the Center. I am author of "Budgeting for the Future" and "Better State Budget Planning Can Help Build Healthier Economies" which detail ways that states can improve their budgeting to better plan for the future and to improve transparency.[1] These reports discuss states but are just as relevant to local governments like Cook County, Illinois. In fact, Cook County's budget is larger than that of a number of states.

A reliable revenue estimate is essential to building a fiscally responsible budget and sets a benchmark for how much funding a state or locality will be able to provide to healthcare, transportation, and other public services. Yet some states and localities forecast revenues using faulty processes that leave out key players and lack transparency.

While there is no one right way to forecast revenues, research and experience suggest that states and localities benefit from including both the executive and legislative branches, and independent experts in the process from the start, giving the public, media, and advocates access to the deliberations and the data that go into the estimates, projecting revenue multiple years into the future, and regularly revisiting estimates during the budget session.

These components together create a strong, reliable revenue estimate. For example, a professional and open revenue estimating process makes revenue forecasts more transparent and accessible to the public and a broader group of legislators, which can lead to a healthier and more democratic debate and greater fiscal discipline.

Currently the County President has sole responsibility for preparing the official county revenue estimate for the upcoming budget year. The proposed ordinance would greatly improve Cook County's revenue estimating process by requiring instead a consensus process, the preparation and publication of five-year revenue projections, and deliberations open to the public – three key elements of a strong, reliable revenue estimate.

Using a consensus process has many advantages. It can:

- **Improve future fiscal balance**. After studying different methods of projecting revenues, Indiana University professors John Mikesell and Justin Ross note that a joint process results in reliable and trusted revenue predictions that provide the foundation for fiscal discipline and for the adoption of an executable budget. A consensus-type process creates a sense of ownership, accord, and acceptance among competing actors who find political power in the budgeting process. They may struggle to come together without that sense of ownership, Mikesell and other researchers suggest, which then could prompt them to ignore the revenue estimate as a constraint on spending.[2] Thus, a consensus process can improve future fiscal balance by avoiding situations where a state adopts a budget that spends more than it can reasonably expect to collect in revenues. It can also avoid situations where an executive or a legislature deliberately underestimates revenues in order to force program cuts.

- **Allow more time to focus on policy changes.** Researchers have also found that a critical benefit of ensuring that both the executive and legislative branches agree on the official revenue estimate used in the proposed budget limits unnecessary debate on forecast accuracy. This allows policymakers more time to focus on the important tax and spending policy changes in the budget.[3] Because the legislature has already been involved and has signed off on the revenue estimate included in the executive's budget, debate can focus on policy as soon as the governor submits the budget to the legislature.

- **Contribute to a good bond rating.** Another plus to a consensus-based estimate: bond rating agencies pay attention to the states' forecasting methods. The major bond rating agencies (Fitch, Moody's, and Standard & Poor's) report that good forecasting is one of the characteristics of states with high bond ratings.[4] At least one of these agencies, Moody's, specifically identifies consensus revenue forecasting as one of five "Financial Best Practices" of states.[5] A low bond rating can increase a state or locality's borrowing costs.

- **Provide a better forecast.** Expanding the pool of experts involved results in a better forecast. Revenue projections are (or should be) technical in nature, based on the best possible economic forecasts. The amount of revenue a state or locality can expect to collect in future years from the sales taxes, property tax, and other taxes and fees that make up the majority of state and local revenues depends significantly on the local economy. For example, the number of people working affects income tax collections and also consumers' ability to spend which, in turn, raises or lowers collections from sales and excise taxes.

Executive and legislative fiscal staff are experts on the details of state or local tax law and on how revenue collections respond to changes in the economy but predicting the future course of the economy is difficult. Bringing in outside economists from academia, the private sector, or both, improves the estimates' accuracy by adding expertise and more points of view to the economic forecasts that are the basis of revenue estimates.

Multi-year forecasts allow for better planning

Many states project revenues beyond the budget year. Projecting how much revenue the state can expect to collect beyond the next few years enables policymakers to anticipate and respond to predictable changes in revenue. Otherwise, policymakers are left blind to predictable declines (or increases) in state revenue and vulnerable to tax-cut proposals that impose large revenue losses several years in the future.

To provide the maximum benefit, a revenue forecast should cover not just the current fiscal year or biennium but at least five future years. Policymakers and the public need to see how this year's actions would affect future revenues. A longer forecast would allow Cook County to able to answer such questions as:

- If the county cuts taxes permanently this year or enacts a phased-in tax cut that grows gradually in cost, will revenues be sufficient to cover program costs in three to five years?

- If the county starts a new initiative this year or expands an existing one, will revenues be sufficient to pay for it in future years?

- If there is a revenue shortfall this budget year, is it temporary — that is, are revenues expected to be sufficient a few years down the road — or is it a structural problem that will persist? The answers to these questions will have a large impact on the appropriate policy choices.

Consensus revenue forecasts are common and effective

More than half the states (29) employ such a "consensus" process. In the other 21 states and the District of Columbia, either the governor and legislature produce competing forecasts (a recipe for gridlock and political infighting) or one branch of government is left out of the official process, which may reduce the revenue estimate's value as a trusted starting point for writing the state budget.

The advantages of an open and inclusive process can be seen in states that already use consensus revenue estimating. For example, in 2009, when Connecticut had a Republican governor and Democratic legislature, it took weeks — which could have been spent debating policy — to agree on a base revenue estimate. The state's adoption of a consensus process later that year streamlined the budget process considerably. Since then, the debates over revenue forecasts have been eliminated. Florida's long history of consensus building on revenue and spending estimates has brought fiscal stability to the budget process. Jim Zingale, former head of Florida's Department of Revenue, cites the consensus estimating process as one of the reasons that the state has maintained one of the highest bond ratings in the country.[6]

More transparency allows more public participation

Other provisions of this ordinance such as requiring quarterly revenue re-estimates, public hearings, and publication of estimates and assumptions would add transparency to the revenue estimating process. This allows for public oversight and can increase public confidence in government.

As currently designed, the ordinance requires that if the commission cannot come to a consensus, it must issue a report explaining its estimates and why no consensus was reached. This allows all parties to better evaluate the revenue estimate that is eventually used in the budget. But some states have found that going further by, for example, including a fallback to an estimate prepared by a third party such as the state controller provides an incentive to reach consensus. In the future, if this ordinance is adopted, as the county becomes comfortable with the operation of a revenue estimating commission, it may want to consider including provisions that provide a stronger incentive to coming to a consensus.

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[1] *Budgeting for the Future: Fiscal Planning Tools Can Show the Way*, Elizabeth McNichol, Vincente Palacios, and Nicholas Johnson, Center on Budget and Policy Priorities, https://www.cbpp.org/research/state-budget-and-tax/budgeting-for-the-future-fiscal-planning-tools-can-show-the-way ; *Better State Budget Planning Can Help Build Healthier Economies,* Elizabeth McNichol, Iris Lav, and Michael Leachman, Center on Budget and Policy Priorities, October 15, 2015, https://www.cbpp.org/research/state-budget-and-tax/better-state-budget-planning-can-help-build-healthier-economies.

[2] William Earl Klay and Joseph A. Vonasek, "Consensus Forecasting for Budgeting in Theory and Practice," Chapter 16 in *Government Budget Forecasting: Theory and Practice*, CRC Press, 2008.

[3] John L. Mikesell and Justin M. Ross, "State Revenue Forecasts and Political Acceptance: The Value of Consensus Forecasting in the Budget Process," *Public Administration Review*, 2014, the American Society for Public Administration.

[4] Jeffrey M. Tebbs, "Breaking the Stalemate: A Proposal for a Consensus Revenue Forecasting Process," Connecticut Voices for Children, March 2009, http://www.ctvoices.org/publications/breaking-stalemate-proposal-consensus-revenue-forecasting-process.

[5] US States Rating Methodology, Moody's Investors Services, April 17, 2013, p. 8.

[6] Pew Center on the States and The Nelson A. Rockefeller Institute of Government, 2011.