MEETING MINUTES
SUBCOMMITTEE ON THE USE OF LONG-TERM FORECASTS
TASK FORCE FOR LONG-TERM
FINANCIAL ANALYSIS AND PLANNING
March 8, 2000
Legislative Building, Room 2135
Carson City, Nevada

SUBCOMMITTEE MEMBERS PRESENT:
Mark Arrighi, Chairman
Diane Torry, Vice Chairman
John P. Comeaux
Bob Olson
George Stevens

SUBCOMMITTEE MEMBERS ABSENT:
Charles McNeely

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:
Mark Stevens, Assembly Fiscal Analyst
Ted Zuend, Deputy Fiscal Analyst
Sherie Silva, Secretary

Chairman Arrighi called the meeting of the Task Force Subcommittee on the Use of Long-Term Forecasts to order at 11:17 a.m. Exhibit "A" is the agenda; Exhibit "B" is the Attendance Record. Mr. Comeaux and Mr. McNeely were not present; Mr. Comeaux arrived later during the meeting.

Mr. Olson moved that the minutes of the January 12th meeting be approved; the motion was seconded by Ms. Torry and passed unanimously.

Chairman Arrighi asked Ted Zuend, Deputy Fiscal Analyst, Fiscal Analysis Division, to present Item III of the agenda, Effectiveness of the Use of Other States' Long-Term Forecasts.

Mr. Zuend recalled that a request had been made at the last meeting to resurvey other states with regard to the effectiveness of long-term forecasting. He noted some states had mentioned that long-term forecasts become more important when times are bad than when they are good. Forecasting becomes more of a concern when there are economic problems confronting the state. If a recession is anticipated, it is difficult to ask the taxpayers for tax increases. Mr. Zuend said some states are not quite as formal in their process as others, and one of the roles of the Nevada Task Force is to develop a more formal process. He also noted that it appears the processes in other states are in various stages. Long-term planning is a relatively recent activity in many states, and it seems to be evolutionary in that each state tends to be moving slowly in adopting the process. Mr. Zuend said it is the job of the Task Force to impose an initial process that will be somewhat effective, but not necessarily impose mandates on the process other than to get it started. He asked for questions from the committee with regard to the data presented.

Chairman Arrighi remarked it is becoming obvious to him where the use subcommittee should be going, i.e., the subcommittee should prepare a variety of alternatives for the full Task Force to consider. It will then be the joint committee's responsibility to decide how formal or informal the process should be, how specific the proposed legislation should be, what should be included in the final report, and other similar kinds of issues. He asked Mr. Zuend for his thoughts.
Mr. Zuend replied if the subcommittee feels strongly about something, it should report so to the committee as a whole. For example, if it is the committee's feeling that long-term forecasts should be done annually, then the report to the joint

committee should indicate the same.

Bob Olson recalled that in earlier informal conversation, discussion was held about the desirability of having a long-term impact report attached to every legislative bill that gets introduced rather than just a financial note extending through the biennium. He asked if that recommendation is within the subcommittee's purview since it is specifically targeted toward the legislative side as opposed to using the forecast on a broader basis for budgeting purposes.

Mr. Zuend responded that the legislature, in adopting the legislation creating the Task Force and the office within the Fiscal Analysis Division represented by Russell Guindon, mandated that the Task Force suggest the role of the office. He suggested this item be placed on the subcommittee's agenda for the April meeting. The subcommittee on the preparation side will also be considering the role of the office, particularly in coordinating activities of the forecasting group to be created. With regard to Mr. Olson's question, Mr. Zuend said longer-term fiscal notes could be a task of Russell Guindon's office, particularly when bills have a long-range effect but not much of a short-range effect. However, tying this function to the forecasting group might be more difficult, especially until the group becomes more established. He felt the recommendation is certainly within the subcommittee's purview.

Diane Torry said it appears to her the subcommittee is looking at two different things: One is to create the process or procedure for long-term forecasting and how the information will be used overall, and secondly, how the actions of the government, either executive or legislative, will impact the forecasting that has been done. Ms. Torry reiterated these are two separate elements and she wondered if they are both within the purview of the use subcommittee.

Mr. Zuend said the task of preparing a fiscal note now is fairly complex and creates a lot of work for different agencies. In terms of long-term fiscal notes, it would be necessary to focus only on the issues that might present a large potential impact. Not every bill that requires a fiscal note would necessarily need a long-term fiscal note. He thinks when there are major issues, new programs, potential tax decreases, and/or potential tax increases, Mr. Guindon's office could prepare a fiscal note reflecting the long-term impacts.

Chairman Arrighi asked that the minutes reflect that Mr. Comeaux had arrived.

With regard to the issue of long-term fiscal impacts, Mr. Arrighi said the preparation subcommittee is presumably developing the process for calculating or determining the long-term forecasts. It seems to him that during the legislative session the impacts of proposed legislation would have to tie to the assumptions of the preparation subcommittee.

Mr. Zuend remarked this issue had been brought up by Mr. Comeaux at the use subcommittee's first meeting. Bills can be introduced that have potential long-term impacts but virtually no budgetary concerns in the short term. Mr. Zuend feels that, at a minimum, documentation should be provided with regard to the possible long-term consequences of potential legislation so that the legislature has full knowledge of its impacts, although this function may fall outside the purview of the long-term forecasting group to be created. He also suggested that there be a recapitulation after the legislative session. A long-term forecast could be prepared in advance of the legislative session, presumably in advance of preparation of the Executive Budget, and then another forecast prepared after the session, to include the effects of the legislative changes, which will in part be due to Executive Branch as well as the Legislative Branch.

Perry Comeaux said he agreed with Chairman Arrighi—if the legislature puts legislation into effect requiring long-term planning, then in order for it to be useful, the Executive Budget and any new or expanded programs proposed in the Executive Budget must include a long-term forecast. The methodologies used need to be the same as those used in preparing the original long-term forecasts, and during the legislative session, a long-term forecast of the impacts of legislation should be available at some point before it is voted on. As an example, Mr. Comeaux said every few years the criminal sentencing structure becomes an issue, which can have a tremendous impact on the budget. The Public Safety budget represents about 12 percent of the Executive Budget, and if a change in the sentencing structure is going to send people to prison longer or is going to establish a new punishable crime, it is necessary to analyze the effects on law enforcement, the judiciary, the prison system, probation and parole, and so on. Mr. Comeaux said long-term planning will be useless if it is just done every two years and after the fact. The information must be made available in advance to make the process work.

Mr. Olson remarked in reading Mr. Guindon's report on how other states are using long-term forecasts, it appears legislators cannot be forced to take into consideration any information, let alone long-range forecasts or what impacts their actions might have. Most legislators are very short-term oriented because they are elected for only two-year terms. Mr. Olson agreed with Ms. Torry that there are a number of different issues involved. The subcommittee can submit a recommendation that there has to be a long-term impact report attached to every new piece of legislation, but it is not the subcommittee's responsibility to see that the legislature takes the information into consideration. Regardless of what forecast is prepared prior to a legislative session, the real consequences will not be known until after the session. Going back to the issue of timing, Mr. Olson feels that if a long-term forecast is to be performed only once a year, it should be done after the legislative session in order to know the full impact of legislative action.

Ms. Torry agreed the impact of legislation is a critical piece of the forecast, but it seems to her that the forecast must be available to both the Executive and Legislative Branches during the budgetary process. One of the benefits of conducting long-term forecasting is to have the "official forecast" available so that everyone is working from the same baseline, and then changes can be evaluated. She feels there must be baseline data from the start in order to provide the useful tools needed for long-term forecasting.

Perry Comeaux remarked the issue could be as simple as expanding the use and understanding of what is included in the fiscal notes currently being prepared. The fiscal notes should provide specific information for the current biennium, but there is also a place to indicate an ongoing impact, which has really never been used the way it was intended to be used. He said he has seen some fiscal notes with just "yes" written in the ongoing column, which provides no information at all. Requiring long-range information might at least prevent proposal of a program during the course of a biennium just to keep the cost of the current biennium down, and never confronting the fact that the costs may double in the following biennium. Mr. Comeaux said the process will be a waste of time if some measures are not implemented. To have the information after the fact is better than not knowing at all, but he adamantly stated it would not be sufficient.

Chairman Arrighi asked Mr. Zuend to move on to agenda Item V, Selection of Alternative Forecast Uses for Recommendation to the Full Committee, adding that hopefully the previous ideas and suggestions can start to come together.

Mr. Zuend referred to a table (Exhibit "C") which he explained focuses mostly on the use of the formal six- and ten-year long-term forecasts of revenues and expenditures. Some mechanism will have to be created whereby Mr. Comeaux can request a long-term impact study for legislative issues, and the legislative analysts will require impact information of Executive Branch proposals. It was anticipated that creation of Mr. Guindon's office would expedite and smooth the process.

Referring to Exhibit "C", Mr. Zuend said the information included in the exhibit predominantly relates to the creation of a body or bodies that perform long-term forecasting on both the revenue and expenditure (caseload) sides. He reviewed four approaches, explaining the first approach is the simplest, with the fourth alternative being the most complex:

- In even-numbered years only, prepare forecasts of revenues and caseloads (expenditures) out 10 years.

    - At a minimum, submit written reports to Governor (Budget Office) and legislature (Legislative Counsel Bureau).

  Reports of findings would have to be submitted to the Governor and the legislature so they have a tool to gauge what the structural outlook situation for the state seems to be in the long term. Some benefits to local governments could also be included, because some of the items being forecasted would apply to local governments, e.g., sales tax, property taxes for schools.

- Prepare forecasts annually of revenues and caseloads (expenditures) out 10 years.

    - At a minimum, submit written reports to Governor (Budget Office) and legislature (Legislative Counsel Bureau).

- Forecasts in odd-numbered years will incorporate effects of legislative actions.

- Prepare forecasts annually of revenues and caseloads (expenditures) out 10 years. Provide for review of forecasts during legislative session; adjust forecasts as necessary.

  - At a minimum, submit written reports to Governor (Budget Office) and legislature (Legislative Counsel Bureau).
  - Forecasts in odd-numbered years will incorporate effects of legislative actions.

  Mr. Zuend said he did not necessarily envision the review applying to all proposed legislation, but rather if the economy changes between the time of the original forecast and the time the legislature convenes, there will be an opportunity for the group to meet again to revise estimates. The review would be necessary only in the event of a major economic change in the long-term expectations, e.g., major fall in the stock market.

- Prepare forecasts annually of revenues and caseloads (expenditures) out ten years. Provide for periodic review of forecasts; adjust forecasts as necessary.

  - At a minimum, submit written reports to Governor (Budget Office) and legislature (Legislative Counsel Bureau).
  - Forecasts in odd-numbered years will incorporate effects of legislative actions.

Mr. Olson thought the subcommittee was missing the point when addressing submission of written reports. If part of the subcommittee's role is to identify ways the information will be utilized in the budget process, simply stating that a written report will be provided to the Governor and the legislature might stop short of what needs to be done. The issue of attaching a fiscal impact note to every piece of new legislation needs to be addressed, and he wondered if the subcommittee should be proposing statutory mandates that the information be utilized in the budget preparation process.

Mr. Comeaux said the difficulty is to what extent the information would be utilized. For example, if a long-range forecast indicates that the revenue growth is not going to keep up with the growth in major caseloads, the further out in time, the more the caseloads will consume revenue and force a shift in resources. He wondered what the legislature and administration could put in place today that would answer the problem five years into the future. Mr. Comeaux said current law mandates the Governor to submit a balanced budget, and he has to provide an unappropriated ending fund balance of a certain minimum amount, as well as other things, but Mr. Comeaux does not envision how it could be mandated that if the forecasts indicate an imbalance, the problem must be resolved before session is adjourned. He feels that problem is just too big.

Ms. Torry said it was the intent of the framer of the legislation that this process would force dialogue and discussion of imbalances, not necessarily present specific solutions. The dialogue and discussion would be part of the annual deliberations, but from a use standpoint, the issue becomes much fuzzier, as long-range forecasting always is, even in corporate America. However, she feels the dialogue and discussion will identify the upcoming issues in the six- to ten-year horizon.

Mark Stevens, Assembly Fiscal Analyst, stated that mandated long-range forecasts would include one, two, three, and four-year forecasts. If those items are also to be mandated, the Governor has the duty to produce a balanced budget, and if the revenues do not match the expenditures, a difficult problem would be created for him in the short term. There are situations where caseloads can be argued. As an example, Mr. Stevens said the University System could predict enrollment growth of 6 percent, whereas the Governor and the legislature may feel there is only enough money to fund a 4 percent growth. The growth may increase 6 percent and the University can keep the additional student revenue generated, but the extra 2 percent in state dollars would not be allocated. On a short-term basis, the University System can provide for those additional students with the student fee revenue. However, if the enrollment projections were mandated on a short-term basis, then all 6 percent, including the state money, would have to be provided to the University System, thereby possibly resulting in overall expenditures exceeding revenues in the short-term, forcing dramatic changes on one side or the other. Mr. Stevens emphasized that use of short-term projections will have to be addressed. He agreed with Mr. Comeaux concerning the difficulty in mandating that a problem ten years out be taken care of now. He asked the committee when deliberating over the use of long-term projections to keep the implications of the short-term forecasts in mind as well.

Mr. Olson said he was thinking in terms of requiring all parties to the budgeting process to utilize the same factual information in preparing their requests and projections, not mandate this year what is going to be spent ten years from now. He simply wondered how legislation can include the fact that all the various entities take into consideration the same set of facts in preparing their projections and forecasts.

Ms. Torry reiterated that it would also be desirable to have long-term forecasts as a part of the dialogue, discussion and debate during budget deliberations.

Chairman Arrighi asked if in the states where legislation requires use of the forecasts, everyone must use the same revenue projections. Mr. Zuend replied that is correct, adding that stipulation is a mandate in the Nevada Economic Forum statutes as well. Although he can propose new revenue sources, the Governor is bound by the Economic Forum's revenue projections to balance the budget.

Mr. Arrighi said whatever process is determined, the forecast would become a formal forecast for the state, whether it be for six or ten years beyond the biennium. However, if someone wants to argue with the formal forecasts, there is probably no way to force use of those figures since they are beyond the budget period at hand.

Mr. Zuend said he does not believe Mr. Olson was suggesting trying to fix a problem which may be anticipated ten years out. He thought Mr. Olson was simply asking that a statement be placed in the statute that the numbers developed by the forecasting group are to be used for budget and planning purposes by all agencies involved, although they cannot be forced to use them.

Referring to the question side of Exhibit "C", Mr. Zuend said he is not sure what formal process could be developed for submitting the report to the Governor. He wondered if a formal presentation could be made at the beginning of the legislative session by a spokesman for the forecasting committee.

Diane Torry noted the state of Florida uses conferences, and she wondered exactly what those involve. Mr. Zuend replied they are public bodies that meet under the appropriate Florida rules, and he assumes they would be open meetings where presentations are made and decisions are publicly made. He noted the Florida process has evolved over many years, and it involves a lot of bureaucracy. He believes that Nevada wants a simpler process, although it may become more complex down the line. However, the desire is to get a working process on line, presumably after the 2001 Legislative Session, that can be adaptable to the future.

Mr. Zuend continued, saying decisions such as having the law stipulate that these are the official forecasts to be used by the state of Nevada are the kinds of decisions the subcommittee needs to make. If the forecasts are to be done annually, it should probably be stated in the statute. Some other things, such as periodic reviews, may not necessarily have to be mandated by statute, but only stipulated that they be done.

Ms. Torry stated one of the real benefits of a public process where official numbers are published is that everyone is using the same baseline data, and the broader public understanding increases the dialogue and the information, and therefore on the other side, improves the product produced, i.e., the budget forecasting and meeting obligations to the state's citizens. It is Ms. Torry's thinking that the process should not become only a bureaucratic process, but something that is inclusive and enhances the dialogue across the state in a variety of different ways.

Chairman Arrighi asked if Ms. Torry envisioned a public hearing process, and she replied she believes some element of public process should be included, just as the Task Force is a public forum. She would hesitate to mandate any specific requirement for the public process, but as the process evolves, one of the overriding approaches should be that it is a public process accessible to everyone in the state.

Mr. Zuend said Ms. Torry's suggestion will probably be considered by the preparation subcommittee, and Mr. Guindon has developed some alternatives which should get the process started. As to the composition of the final body, there will be some debate. The Economic Forum consists of five private experts, but maybe in the long-term process, certain other types of individuals will be required. Although the composition might be private, most of the input received will be from governmental sources, e.g., legislative branch, budget office, Gaming Control Board, Department of Taxation, and so on. When the preparation subcommittee comes forth with its recommendation to the full Task Force, discussion then can be held and a consensus reached.

Mr. Zuend suggested the subcommittee consider answers to the questions included in Exhibit "C" in order to develop recommendations to the full Task Force. Chairman Arrighi said the first recommendation should be regarding the frequency of long-term forecasts. Mr. Zuend said the legislation mandates six- and ten-year forecasts, but the committee can recommend beyond that. Discussion will take place as to whether the Economic Forum will become part of the process or whether it will continue to be separate from the long-term forecasting. He noted short-term and long-term numbers should be similar on the revenue side, but they may vary on the expenditure side. In determining six- and ten-year forecasts of caseloads, it is implicit that forecasts for one, two, three, four, five years and in between be developed, so another question becomes whether the short-term forecasts should be publicized.

Diane Torry asked why short-term forecasts would not be publicized. Mr. Zuend replied because they theoretically could conflict with numbers produced by someone else, although there may be legitimate reasons that they conflict. Presumably the process itself would have all of the players involved, i.e., Medicare, Welfare, University System, Education, etc.

So, Ms. Torry observed, publishing the short-term forecasts then has the potential to increase the dialogue and discussion, which could be a positive result. Mark Stevens replied she was correct, and there could be differences between the short-term forecasts and the Executive Budget forecasts in some areas, which would also tend to increase the dialogue. However, he feels it could be problematic if publicizing short-term forecasts were mandated because the Governor has to balance the Executive Budget in a way he feels is most appropriate. There could be differences in published caseloads and what is ultimately recommended in the Executive Budget to be considered by the legislature. Mr. Stevens said this is not necessarily a problem, but it is a possible result.

George Stevens remarked this sort of debate is one of the reasons the Economic Forum was created in the first place, i.e., there were disagreements about revenue projections, and now it is being said the same problem exists on the expenditure side. Hopefully, a process will be developed where, at least for the short run, forecasts can be reconciled between the different agencies. If the committee can come up with a good method of projecting caseloads for the short-term, he thinks the use of those should also be mandatory.

Referring to the University System enrollment growth example cited earlier, Mark Stevens said he does not completely disagree. If short-term revenue projections are mandated and short-term expenditure projections are mandated and they don't match, there would not be much room to maneuver. The differences would have to be reconciled over a two-year period, which would be difficult to accomplish.

George Stevens affirmed that under-projecting the enrollment growth would effectively cut the per-student funding, one way or another. Mark Stevens agreed, saying he had used the University System as an example because funding of K-12 is more or less guaranteed. In higher education, funding is not mandated, and the state does not have to provide funding. If short-term projections are mandated, he wonders if the Governor would have to use a student enrollment growth rate of 6 percent when building the Executive Budget. If it is mandated that funding of a 6 percent enrollment growth be provided, recommendations would have to be made whether to restrict enrollment or raise revenues. Currently if higher education enrollments exceed the projections, the University System has managed very well, at least in the short-term, by using the student fee revenues that are available. Mr. Stevens said there are a number of examples that could be cited, and it is just a matter of how stringent the rules should be in putting the budget together—whether to mandate or not to mandate. As far as getting legislation approved through the legislature and signed by the Governor, he feels the more restrictive the policy is, the more difficult it may be. However, the committee has the latitude to recommend anything it feels appropriate.

Mr. Arrighi remarked mandating both the revenues and caseload short-term projections would basically create the state's budget. If the numbers do not balance, then the Governor would have to make necessary adjustments. The expenditure estimates would essentially be taken out of the hands of the Governor's Office and the legislative analysts and put into the hands of the forecasting committee. He realizes the process will have to look at the short-term projections in developing six- and ten-year numbers, but mandating their use may be too restrictive.

Mr. Olson said it seems to him there is a bit of a paradox in the situation. The subcommittee's task is to recommend usage of six- and ten-year forecasts in some process. The budgetary process is two years in length; the committee can mandate that both sides of the equation, the revenues and the caseloads or expenditures, be developed by the forecasting group every year and they will be the dollar amounts to be utilized in the budget process. He is not sure that this is part of the purview of the subcommittee—it seems to him the process is more tactical than strategic, and it is much more short-term than long-term.

Diane Torry agreed that it is tactical short-term, but the natural fallout of the long-range projections would be having numbers that impact the short-term, which is not necessarily a bad thing in terms of increasing dialogue, as long as their use is not mandated. She agrees mandating usage of the forecasts may be outside the committee's purview, but feels that increasing the dialogue in the short-term is within the role of the subcommittee. Even if the short-term numbers are not published, people will be extrapolating them for various purposes.

Chairman Arrighi said he personally does not have a problem with publicizing the short-term numbers used to arrive at the long-term forecasts, and he does not have a problem with a recommendation that the forecasts become the formal projections. However, he does not feel usage of the short-term numbers should be mandated. Other departments and entities are determining those numbers for the actual biennial budgets.

Mr. Zuend said the Governor has the flexibility to change the amount per case, even in K-12; he is not bound by a given number in a given year. However, the idea is to give a good picture of the state's budget and how it balances. If there were ten-year projections of Medicaid, K-12, University System and so on, expenditures could be developed for the long-term. However, Mr. Zuend feels it is important to have the short-term numbers on the table, but the question would be when the short-term projections should be presented. Should they be presented August 15 when Mr. Comeaux receives the agency budget requests, or should they be done in April or May when the agencies are preparing their budgets?

Chairman Arrighi said he envisions the final forecasts, six- or ten-year, would include supplementary data containing the short-term numbers used to reach the long-term forecasts. He wondered if the preparation subcommittee should more appropriately be considering the timing issue.

Mr. Zuend replied Mr. Arrighi was correct. The use subcommittee should be determining whether to mandate use of the short-term figures and, if not, whether or not to publish them. In regard to the question of timing, if in fact official projections will be mandated to be used in the budgeting process, Mr. Zuend feels they should be available to the agencies before they submit their budget requests to Mr. Comeaux. He then suggested the subcommittee begin taking each issue and making step-by-step decisions.

Chairman Arrighi agreed, and he referred committee members back to the questions portion of Exhibit "C". The first major question to be answered is when and how often the projections are to be completed.

Mr. Olson observed if the state budget is prepared on a biennial basis, it is not necessary to have the forecasts be available at the same time every year. Mr. Comeaux agreed, adding that doing the basic forecast on a biennial basis would probably be sufficient. He suggested it would be helpful to have the forecasts ready in April or the first part of May of even-numbered years.

Mr. Olson recommended that long-term forecasts be prepared every other year in even-numbered years and be available by May 1. Mr. Arrighi noted this date would allow enough time for use by the agencies, the Governor's office, and the Legislative Counsel Bureau. Agency budgets are to be submitted to the Governor by August 15, and the Executive Budget is submitted to the legislative money committees two weeks prior to the start of the legislative session (mid-

January).

Since a year would pass between the time the information for the forecasts is gathered and the legislative session begins, Mr. Arrighi wondered if a review of the forecast should be required before the legislature convenes.

Ms. Torry asked if triggers for review are already in place for the Economic Forum on the revenue side. Mark Stevens replied the Economic Forum's short-range forecast is due by December 1 before the legislative session and then reviewed again during the session before May 1. The legislature is bound by the forecast.

Mr. Zuend noted that any adjustments that take place between December 1 and May 1 are principally due to changes in the collection of revenues during the fiscal year prior to the next biennial fiscal year. He said the experience has been most changes are driven from what the experience has been during the period between December 1 and May 1. However, the changes would not necessarily impact a long-term forecast, unless they were dramatic.

Mr. Comeaux said there probably should be a provision for the opportunity to revise the projections in the event of a dramatic situation (for example another Black Monday). He agreed with Mr. Zuend that the short-term forecasts are a lot more sensitive to changes between December 1 and May 1 than the long-term forecasts would be. One occurrence between May 1 of the even-numbered year and February 1 of the odd-numbered year when the legislature convenes is the Executive Budget. He said some consideration needs to be given to the effect that proposals in the Executive Budget would have on the long-term forecasts. For the forecasts to be useful, the legislature would require an update based on what is included in the Executive Budget.

Mr. Olson noted that some states conduct an update following each legislative session so that any significant impacts on the long-term forecast can be taken into consideration. With regard to whether there should be any minimum criteria to meet before revisions to forecasts are made, he asked if Mr. Zuend was addressing the issue of a percentage, e.g., a piece of legislation would be required to have an impact of more than 5 percent on the total revenues or expenditures. Mr. Zuend replied there probably should be a standard set prior to any revision of forecasts. However, new programs in the Executive Budget would not be reason for revision, since they are not written into law. The charge of the Economic Forum is to base its projections on the laws in existence at the time of its forecast, not what may or may not happen as the legislature proceeds. He wondered if a technical committee, possibly through the auspices of the Fiscal Division, could make some judgments about the Governor's budget as far as impacts, and maybe later make judgments about what specific legislative proposals not included in the Governor's budget might do, without necessarily having to reconvene the forecasting committee. There is a technical advisory committee to the Economic Forum, and possibly there should be a similar body on the expenditure side that could present information to the legislature concerning consequences of potential actions. Mr. Zuend agreed that the long-range consequences of legislation need to be considered; the question is who would do that—should it be a function of the formal forecasting committee or a more technical body?

Chairman Arrighi said if the Governor proposes new expenditures or programs that were not anticipated in the long-range forecast, presumably the biennial expenditures would be forecast in the Executive Budget. The question then becomes if the expenditures have a material effect on the long-range forecast, should there be some provision for identifying those items that may affect the long-range and, if they do to a material extent, should the long-range forecast be changed at the start of the session?

Mr. Comeaux thought Ted Zuend's suggestion of a technical group might be a good idea. If someone makes a proposal that will be in excess of the de minimus amount, then information on the long-term effect would need to be prepared—not necessarily a revision of the long-range forecast, but supplemental information to the proposal. At that point in time, a technical group, as opposed to the forecasting group, might be more appropriate to review the information for expediency's sake. Mr. Comeaux noted things move very quickly from November 1 until the end of session in May.

Mr. Olson again referred to the requirement that a financial impact report be attached to every new piece of legislation and the fact that the vehicle is already there but not being utilized to its fullest. If that were followed, he asked if the impact of each piece of legislation would not be known at the time it is discussed and, consequently, revisions to the long-range forecasts could be made rather simply. Again, he added, it will be necessary to establish a threshold of what is significant.

Mr. Comeaux said currently the fiscal notes have a "tarnished reputation," because the agency to be affected by the proposal has a major responsibility for preparing the note, then it is submitted to Mr. Comeaux's office for a judgment as to reasonableness, and then it is sent to the legislature. Many people think the agencies manipulate the fiscal note depending upon whether they like the law or they don't. He said possibly taking the fiscal notes for major changes out of the agencies' hands and having a technical group prepare them with input from the agencies might solve the problem.

Mr. Olson noted that Ted Zuend had earlier suggested this might be a role of the office of Financial Analysis and Planning. Mr. Zuend said if a technical group were established, Mr. Guindon could be the key coordinator of the process.

Mr. Zuend pointed out that the fiscal note process is not entirely complete. Only those items that adversely affect the state budget are studied, i.e., only those things that decrease revenues or increase expenditures. However, if revenues are increased, what impact would that have on a long-term forecast? He cited the example of New York State, which just imposed an additional cigarette tax to pay for additional medical care; however, obviously decreasing cigarette tax revenue will not fund additional medical care too far into the future.

Recapping the recommendations made so far, Mr. Zuend said the forecasting body will make an official forecast on or before May 1 of even-numbered years. A technical group will be created to consider major changes proposed in the Executive Budget or proposed by specific legislation, to be coordinated by the Fiscal Division's Office of Financial Planning and Analysis. He wondered if the technical committee should review the forecasts after the Executive Budget is released, possibly February 1, and then later in anticipation of the legislature's adjournment, May 1 or so.

Mr. Comeaux thought two reviews would be doable and would also be helpful. He remarked that to make the process work, it is not possible to worry about every proposed increase—a threshold will have to be set. On second thought, he questioned whether a review on May 1 would be beneficial, since nothing of any political or social import will happen by May 1—everything of any significance will happen between May 1 and May 31.

Mr. Zuend said the question might be whether to bring the technical panel in just to show that it is an unbiased process rather than the Fiscal Division or Budget Division rendering a judgment. Mr. Comeaux agreed the review is a good idea, particularly on amounts that exceed some threshold.

Mark Stevens observed that although a lot of bills are introduced during the session, it is relatively obvious which ones will progress forward, and possibly a mechanism can be developed to identify those bills which have a good possibility of passing and only those would be sent to the technical group for review. A lot of time could be spent analyzing every bill. He said if the fiscal note process is extended out four or six years and takes into account the routine bills, the technical group would be able to concentrate on the ten or so bills that might have a dramatic impact and possibility of being passed. There are not that many bills that would have a huge long-range impact. Mr. Stevens said the Executive Branch and legislative leadership could become involved in determining which bills should be analyzed. It is his feeling the technical group would want to spend a sufficient amount of time to do a good job in analyzing what the impact might be. He said on the legislative side when there are only a certain number of bills or decisions that can be made, they are usually left up to leadership on both the assembly and senate side. The Executive Branch would also have to be included in some fashion.

Chairman Arrighi asked Mr. Stevens if he envisions some group asking for the review of certain issues—some may want a review while others may not. Mr. Stevens replied that an expenditure threshold could be established—he would guess it would have to be relatively large; or if a revenue is going to generate a certain amount, whatever it might be, then a review would be appropriate.

If the proposed legislation exceeds the two-year biennial period, Mr. Arrighi asked if the projection would have to be long-term. Mr. Zuend replied that would not work because there may not be a revenue impact for the short-term but there will be for the long-term. Perhaps the Governor could be required to identify those items in his budget which may have a consequential impact over the long term.

Mark Stevens said the Fiscal Analysis Division is currently charged with exemptions contained in the legislative rules. Perhaps criteria could be developed and the Fiscal Analysis Division and the Budget Director could deem whether an issue is significant enough to move forward. The Fiscal Analysis Division is non-partisan and must be able to advise either side of the fiscal impacts or whether an issue would reach a threshold; the Budget Director could serve as advisor to the Executive Branch.

If the designated number of bills are analyzed on a long-term basis, Chairman Arrighi asked if that analysis and long-term projection would be submitted to the forecasting committee, the technical group, some other group that is not directly involved with the legislature, or the state agency for agreement and approval or disapproval. Mark Stevens replied that could be the case, but he warned things move very quickly during the legislative session. The process would have to be thought through carefully. The technical committee would have to be structured in order to be able to cover all bases.

Diane Torry remarked the purpose of performing the analysis is to provide information to the legislators and others involved in the process, and that would have to be done quickly during the session. She questioned whether involving an outside group would be effective in terms of providing information. Mark Stevens agreed, saying it would be problematic more than beneficial. The goal is to provide unbiased information to the decision makers who can then make a decision. He advised the committee members they would have to make the decision as to whether creation of an outside group would eliminate any bias. Timing will be another important issue. There may be five or six measures, but they will not be active at the same time, so the technical group may have to meet several times.

Summarizing Mr. Stevens' remarks, Mr. Arrighi affirmed that an unbiased group comprised of Fiscal Analysis Division staff and the Budget Office would perform the forecasts and that would complete their function. Mr. Stevens said he would envision a group consisting of representatives from the Fiscal Analysis Division and the Budget Office that would coordinate the process, and the technical group would also consist of state agency personnel, a representative from the Budget Office, the Fiscal Analysis Division, and any other appropriate personnel with expertise, but would involve more staff than policymakers.

Mr. Olson remarked the goal would be to provide the most accurate information as can be developed to the legislature for their use in making decisions. It should not be the responsibility or concern of the Task Force to see that the information provided by the staff group is accurate.

Mr. Zuend added there would not be a formal change to the long-term forecast at this point. Information would be provided concerning what long-term impact a certain proposal might create for the legislators and Governor to consider when making decisions.

Mark Stevens said the next question would be whether this should be accomplished on a certain date or when the bill comes up for consideration. It might be desirable to have a cut-off date. He envisions that February 15 or March 15 the group would meet and compile the data, and then as soon as possible after that date reports would be prepared for each major legislative issue.

Mr. Olson asked if most major legislation is introduced at the beginning of session so it is known by leadership. Mr. Stevens replied not necessarily, and in certain instances, particularly in the Executive Budget, the information is not known until after the Executive Budget is released or a couple of weeks past. It would be good if a date was set on which the work could be accomplished for the Executive Budget, because sometimes proposals are discussed during session but the bill has not yet been drafted. He said most of the legislators' bills are introduced earlier. However, there is also the possibility of a budget proposal that is not in bill form, such as the dental school in the 1999 Session. This situation will have to be taken into consideration as well, because that was a proposal, not in bill form, that could have a significant fiscal impact into the future. Mr. Stevens said he and Mr. Comeaux would discuss possible solutions to those particular issues.

Ms. Torry asked if a proposal must be converted to bill form in order to move forward. Mr. Stevens replied no, not if it is in the budget. If the proposal is in the budget, the money committees must take action and include money in the budget. With regard to the dental school, a bill was introduced late in the session that authorized how the school could be financed, but that was done after the decision was made whether it was appropriate to go forward with the dental program. In this particular scenario, the time to be thinking about the long-term impact should have been much earlier in the process rather than at the very end when the decision was made.

In response to a question from Ms. Torry, Mr. Stevens explained the proposal was not included in the Governor's budget, even though its existence was known throughout the session, and the final numbers for review were not made available until late in the session. He added it's possible a mechanism to identify similar situations in the future may need to be developed and included in the mix.

Chairman Arrighi stated the committee's concern is that if long-term proposals in the Executive Budget are going to have a major long-range impact, the information must be made available to the Governor, the legislature, or whomever. He then reviewed the recommendations thus far:

1. The technical group is provided information under a set of guidelines which determine what long-term information will be provided for which bills and proposals;

2. The legislature takes action; and

3. The budget is approved.

Mr. Arrighi said the next decision is after adjournment of session whether a committee should compare the previous long-term forecast to the new legislation and update the forecast if appropriate.

Mr. Olson said he imagines that would be the function of the group to be recommended in the preparation subcommittee, whether it be the separate committee for expenditures and revenues or one long-range forecasting committee (which makes more sense to Mr. Olson). He said the determining body, whichever it is, would review the impact of what the legislature has done. How soon they would have to meet is debatable. If a forecast is going to be prepared every two years, then the group automatically will be meeting shortly after the legislature adjourns, so the review would occur naturally in the process.

George Stevens agreed, saying he does not think the review would have to take place immediately after session; the process undoubtedly will be longer. Mr. Arrighi also agreed, adding the laws are the laws as passed during the session, and May 1 would be the date for the next long-term forecast regardless.

Mr. Zuend observed that other states have a recap mechanism, essentially a scorecard as to the consequences of the legislative changes. The Nevada State Controller closes the books by September 30 of each year, and the consequence of the legislative actions and how they may affect the forecast could be presented, along with a discussion of those changes. The following May there would be another forecast cycle. A forecast conducted in September would undoubtedly result in accomplishment of a lot of work for the May forecast.

Mr. Comeaux reiterated he failed to see the usefulness of a post-legislative review. In his opinion, whenever the forecasting group needs to get together to revisit the long-term forecast in order to have it completed by the following May 1 is the earliest date the group would have to meet.

Mr. Zuend said he assumes the recap mechanism may provide a means of public pressure on decision-making. It obviously would not need to be done in September, but if it were done every two years in May, he wondered whether the forecast would include a section explaining the reasons for the changes from the prior two-year cycle. Would there be a description of changes due to legislative action and a description of changes due to economic conditions?

Ms. Torry said it seems to her that a post-mortem use of this information is what the issue is really all about. It would be desirable to create a mechanism whereby the long-range planning information is available to decision-makers, and the way to improve the process would be to provide specific feedback on what was done, e.g., How did we do? Did we provide information that enabled us to make better decisions for the future of the state? Ms. Torry feels there would be some value in knowing the impact of legislative action on the future.

George Stevens said that might be part of the equation, but going back to an earlier comment about information to the public (to publish or not to publish), he wondered if the analysis would be part of the process to keep the public informed. For example, could the report not describe the five major proposals presented in the legislature and their combined total impact? Mr. Stevens feels the information should be made available while the decision-making process is taking place, and then at the end of the legislative session, a review should be conducted as to whether the information was useful, if it was regarded or disregarded, and what the total impact on the long-term plan was.

Ms. Torry said she believes one of the purposes of forcing the dialogue and discussion is to provide information as well as the impact of the decisions on what the future is projected to be. Not wanting to create redundancy or more work than needed, she still feels some evaluation information will be necessary.

George Stevens said he agreed that all of the information should be taken into account as the forecasts are done, but he does not feel the information needs to be developed immediately after the legislature closes. As Ted Zuend had mentioned, maybe that should be a piece of the next long-range forecast publication, i.e., a summary of action during the past legislative session.

Mr. Arrighi observed that in essence information would then be released nine months to a year following the session. It is a matter of timing; a recap could be a preliminary to the next forecast that is going to be released in May—certainly all of the issues will have to be considered.

Mr. Olson suggested the committee return to the original purpose of the forecast. He asked Mr. Comeaux when the actual budget process begins, and Mr. Comeaux replied the process basically begins now, and the agencies have to submit their budget requests to his office by August 15 of the even-numbered years.

Mr. Olson speculated the May 1 date may be too late in the process if the forecasting information is going to be utilized in preparation of the next budget. Mr. Comeaux added the budget process basically never stops, and the earlier information is made available the more useful it is to the Governor and the various state agencies. The first of March would definitely not be too soon.

Going back to the purpose of the forecast, Mr. Olson said as long as the information is available on a timely basis prior to the beginning of the next budget period, that's all the subcommittee needs to be concerned about. A recap immediately following the legislative session would be irrelevant.

It was agreed that March 1 would be an appropriate deadline. Mr. Arrighi said the report could include a reconciliation of the effects from the prior session's legislation.

Mr. Zuend noted the Congressional Budget Office segregates changes due to changes in assumptions and changes due to budgetary adjustments in their annual reports. He feels a segregation of the two and historical data as to how the figures are developed would be a necessary part of the long-term forecast report. Obviously, the assumptions are going to change every two years, and the long-term numbers are not going to be the same.

With regard to publicizing, Mr. Comeaux said it seems to him that the decision whether to publicize would depend on what the preparation group recommends in terms of organization. For a long-range forecast, he would not anticipate a group that would forecast the next biennium, and then based on that forecast, the next biennium, and so on. The tendency may be to do more in the way of trending. He pointed out that during a two-year period the revenues and expenditures fluctuate greatly. However, trending would smooth the activity out. Unless the group is going to replace the Economic Forum and do a specific short-term, two-year forecast and then another for subsequent two-year periods, he does not see any point in publicizing a short-term forecast that is part of a trended long-term forecast, because it could be very different from what is actually transpiring.

Mark Stevens said obviously there will be more confidence in year one and two of a long-range forecast than in years nine and ten. Regardless of where the trend line is set, the first couple of years' expenditure/caseload projections should be fairly accurate.

Mr. Olson suggested until it is known what the preparation subcommittee is going to recommend and what role the Economic Forum is going to play in the process, the use subcommittee should probably not decide any dates for the information to be provided.

Mark Stevens said in the even-numbered years, the Economic Forum's forecast is due in December in advance of the legislative session, and in odd-numbered years it is due by May 1, which is what the legislature utilizes as a final projection. If March 1 or May 1 dates are set for the long-range forecasting committee, there will not be any recent Economic Forum data available. The forecasting group, and ultimately the technical group, would have to, based on more recent experiences, modify short-term revenues and then trend out over ten years. Mr. Stevens reiterated the threshold question for the subcommittee is whether it would be useful to publish the short-term projections. Would it be beneficial to state agencies or others to have short-term information, or would trending be more useful?

Mr. Comeaux said currently the state relies on an independent body to do long-term forecasts of prison population—a group that has very unique experience and a very good data base. The individual school districts are relied upon to forecast their K-12 population, at least in the short-term. The more sophisticated districts prepare long-term forecasts to assist in their building programs. He said the state has an in-house forecasting model for Medicaid, but they have no idea how to forecast caseloads in mental health or mental retardation or child and family services. He thinks whether the short-term forecasts would be useful would depend on how they are done.

Mr. Zuend said when the two subcommittees meet as a full committee, there may be some areas of conflict, but that should not preclude the use subcommittee making a decision as to whether or not to publicize. Nothing either of the subcommittees decides is locked in stone; all final decisions will be made collectively.

Mr. Olson suggested the subcommittee propose that the short-term forecast information be made available, and the timing and format be decided upon later.

Chairman Arrighi summarized the subcommittee's recommendations:

- The formal long-term forecast will be performed on a biennial basis.
- Some mechanism (possibly a technical committee) should be in place to review and potentially develop long-range forecasts based on new programs in the Executive Budget as well as new proposals during the legislative session that would meet some sort of fiscal impact threshold.
- The make-up of the technical committee will have to be determined.
- Based on the timeframe of when long-term forecasts are done, whether or not a post-legislature analysis should be done and publicized must be decided.
- The forecast should include a separate reporting of changes in previous assumptions as well as changes resulting from legislative or budget issues.
- The forecast will be statutorily designated as the official state forecast to be used by the Executive Branch, Legislative Branch, and public at large.

Mark Stevens said another issue would be to expand the fiscal note process to a longer period of time, whether it be four years or six years. Mr. Olson remarked in keeping with the language of the law enabling the process, he would think the fiscal notes should be expanded to six years or ten years into the future.

Mr. Zuend said there is a huge number of fiscal notes produced during the session, and he feels four or six years would be sufficient for the routine smaller impact notes. Mark Stevens agreed, saying ten years out for every bill would create a lot of work.

Mr. Olson said he was referring only to those major bills which would meet the designated impact threshold. Mr. Stevens and Mr. Comeaux agreed the general fiscal note process should be extended out at least two more years for a total of four years, and six to ten years on major proposals.

Mr. Comeaux asked whether the State Demographer's official population forecast would continue to be used. Mr. Zuend said that should probably be clarified in the statute also. Mr. Comeaux said the local governments have an interest in the demographer's forecasts on a short-term basis, but he wasn't sure if anyone really reviews the long-term population forecasts. Mr. Zuend suggested the demographer be included in the process; he is currently on the technical committee for the Economic Forum. It was agreed this might be a decision for the full committee.

Mr. Zuend said all subcommittee decisions should be finalized at the April meeting, and then the committee as a whole can resolve any differences at the June meeting.

Chairman Arrighi said he assumes before the next meeting Mr. Zuend and Mr. Guindon will meet and pull everything together from the two subcommittees. Based on that information, the subcommittees can meet in April and decide any issues. The next meeting will be April 12, 2000.

Chairman Arrighi asked for public testimony; there was none. Mr. Comeaux moved for adjournment; motion was seconded and passed unanimously. The meeting was adjourned at 1:40 p.m.

Respectfully submitted,

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Sherie Silva, Secretary
Fiscal Analysis Division

APPROVED:

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Mark Arrighi, Chairman
Subcommittee on the Use of Long-Term Forecasts

Date:__________________________________