



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

Meeting Minutes

Economic Review

November 5, 2010

John A. Cherberg, Hearing Room 3

Economic and Revenue Forecast Council

Members Present

Craig Pridemore, Senate
Joseph Zarelli, Senate
Ross Hunter, House of Representatives
Ed Orcutt, House of Representatives
Marty Brown, Office of Financial Management
Cindi Holmstrom, Department of Revenue

Staff

Arun Raha, Executive Director, ERFC

Call to Order

The meeting was called to order by Senator Pridemore at 2:28 pm.

Presentation on Economic Forecast

Arun Raha presented information on the economic forecast. Dr. Raha summarized the forecast changes and provided background information on both the U.S and Washington economies, as well as the revenue collection experience since the last forecast.

Discussion on Dynamic Revenue Estimates

Arun Raha briefly described information provided to members regarding revenue estimates that take into account behavioral changes. The information was prepared as a response to recommendations made by the Task Force on Tax Preference Reform. In brief, review of other states' that have incorporated dynamic estimations found that the second round effect creates an offset between 2 to 20 percent of the first round effect. The start-up cost, in terms of modeling and additional staff, can range around half a million dollars and the benefits are not entirely obvious. Hence, these types of reviews are not usually used for budgeting, but mostly for information. Arun also requested that the Council consider that the Council has historically forecasted revenues under current law, not proposed, therefore it would be a big change. Second, Arun requested consideration that the Council's credibility regarding its core responsibility not be eroded; and moreover, that any proposals have a high dollar impact threshold before being assigned to the agency. Last, he suggested that the council develop a procedure on how they will review each request.

Representative Hunter stated that he was on the Task Force and that per Arun's testimony to them, he did not have anything large enough in mind for the Council to review at this time. As a result he recommended that no action be taken at this time.

Marty Brown responded to Senator Pridemore's question on what prompted this recommendation. The question that was posed to the Task Force was how big tax policies and their entire affect on the economy are analyzed. Representative Orcutt added that a fiscal note would suggest that a tax break would cost the state a certain amount but would not incorporate the possibilities that the tax break would encourage new businesses to migrate to the state. Dynamic estimates would incorporate such sensitivity analysis.

Arun Raha responded to Senator Pridemore's question regarding if there would be a staffing problem if the Council were to do these estimates ad hoc in the affirmative. Staffing and other cost estimates would be based on the nature and scope of the project assigned.

Senator Pridemore remarked that other states have failed with these efforts as it is hard to predict behavior. Further, it would not be good information to build into the forecast. He concluded that this was a good discussion, but the Council is not moving this forward at this time.

Representative Hunter added that while he can imagine scenarios, it was not worth creating rules for that at this time.

Governance

Arun Raha presented historical information on the Council's governance in response to Council's request. Currently the Council does not have formal rules and the question was posed if rules should be imposed, and if so, what those rules should be.

After discussion, the Council agreed the Chair's term should not exceed two years and that they would continue to choose amongst themselves, fairly alternating between parties and bodies, one of the legislative members as mandated by RCW 82.33.

Adjournment

Meeting adjourned at 3:11 pm.