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DEPARTMENT OF
FINANCE

REVENUE DIVISION

CITY OF SACRAMENTO
CALIFORNIA

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916-449-5454

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: REVENUE PROJECTION ACCURACY ANALYSIS

SUMMARY

This report back provides the Budget and Finance Committee with an accuracy analysis of the revenue projections since FY 1983/84.

DISCUSSION

Exhibit I is an analysis of the accuracy of the City revenue projections since FY 1983/84. Beginning with FY 1984/85, the City has utilized the services of an economic consultant to forecast the major City tax revenues.

Revenue forecasting is not an exact science nor is it an art. Staff utilizes scientific methodology combined with intuition to develop most forecasts. A balance is sought between the need to be fiscally conservative yet accurately project the expected revenues for fiscal planning purposes.

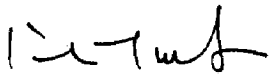
The recommended four percent (4.0%) reserve for economic uncertainty provides a safety net for forecasting errors. The need for a four percent reserve is especially critical for the General Fund. The General Fund has over 100 revenue sources that must be separately forecasted and then aggregated. A single incorrect assumption (for example rate of population growth) can skew a multitude of these separate revenue sources.

Staff views the four percent safety net reserve as an acceptable standard for evaluating the accuracy of the revenue forecasts. Utilizing the economic and revenue forecasting data provided by the City's economic consultant since FY 1984/85, the City revenue forecast has had a less than 4.0% error with the exception of the General Fund forecast for FY 1985/86. Each year the forecast is compared to the actual results and the forecast model is fine-tuned to adjust for changing conditions that effect the model's accuracy.

RECOMMENDATION APPROVED:

This report is informational only and does not require Budget and Finance Committee action.

Respectfully submitted,


MICHAEL L. MEDEMA
Revenue Officer

RECOMMENDATION APPROVED:


JACK R. CRIST
Deputy City Manager

Attachment

Exhibit I

CITY OF SACRAMENTO
REVENUE FORECAST ACCURACY ANALYSIS
FY 1983/84 Through FY 1987/88
(\$ in 000's)

<u>General Fund</u>	Approved Budget	Actual	<u>Variance</u>
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