**Clarification of Recent Press Reports on Measure A Revenue Forecast**

**February 7, 2017**

Press reports published in the past few days have raised questions about when SANDAG staff and management knew about problems associated with the agency’s sales tax revenue forecasts and whether they failed to take timely action to disclose potential issues to the public before the November 8 election on Measure A.

Much of what has been written has been taken out of context, and we would like to take the opportunity to fill in key pieces of information missing from media reports.

The eye-catching emails quoted by the press, and attributed to then newly hired Chief Economist Ray Major, pertained specifically to the income growth rate, one of numerous factors used to estimate taxable retail sales in the agency’s Demographic and Economic Forecasting Model (DEFM). Major noticed that the projected income growth rate was much higher than the historical income growth rate. Those emails were not related to the Measure A revenue forecast, as some of the press reports have implied.

In fact, Major was not involved in the Measure A revenue forecast. At the time he wrote the emails, he was just a couple of months into his job. He was looking at DEFM with a set of fresh eyes and started asking questions in the course of preparing a plan of finance update.

The Measure A revenue forecast was created by the agency’s previous chief economist, Marney Cox, who was working independently of Ray and the staff in charge of the forecasting model. Cox and Major had different opinions about whether the taxable retail sales estimates were overly aggressive, with Cox believing they were within reason. And at no point did any staff member go to management and connect a concern about taxable retail sales estimates to the forecast for Measure A or raise a concern that the Measure A forecast might be overestimated.

As part of public records requests, SANDAG turned over thousands of emails and documents to reporters interested in the agency’s revenue forecasting process. None of the records revealed any efforts by staff or management to cover up or mislead anyone about *TransNet* or Measure A revenue estimates.

Some of you may recall staff made a presentation on [December 16, 2016 to the Board of Directors](http://www.sandag.org/index.asp?meetingid=4287&fuseaction=meetings.detail) (Item 14) explaining errors that occurred in the agency’s calculation of taxable retail sales estimations. At that same meeting they presented a new interim methodology (a more conservative methodology) for forecasting *TransNet* revenues.

Here are some additional points not made clear by some press reports:

* Some of the press reports cited a December 2015 meeting between staff and agency executives as evidence that SANDAG leaders knew the Measure A forecast was wrong and simply failed to take action. The meeting in question took place in December 2015, and the topic was updating DEFM. This meeting took place as part of an ongoing conversation about the need to update DEFM, and because then newly hired Chief Economist Ray Major had been assigned to update the *TransNet* Plan of Finance as one of his first tasks. Major raised questions about projected income growth rates and taxable retail sales growth rates produced by DEFM being higher than the historical growth rates. The modeling team looked into the issue and concluded (which turned out later to be incorrect) that the underlying data from Moody’s and the Bureau of Economic Analysis (BEA) was aggressive. There was no connection drawn between that and the bigger picture revenue forecast for *TransNet* or Measure A.
* Staff had already begun the long and very detailed process of updating DEFM as part of a larger effort to update the agency’s models. So when Major raised his concerns, staff took what they felt was a reasonable course of action: they committed to developing a new forecasting methodology that would address the issue as part of the next major forecasting effort (Series 14 Growth Forecast).
* With management’s support to rebuild DEFM, staff’s energy focused on updating the model with a new base code, new algorithms, and data sources. There was no further analysis conducted on the precise nature of the problem with taxable retail sales. (For further details, please see SANDAG Chair and [Supervisor Ron Roberts’ op-ed](http://www.voiceofsandiego.org/topics/opinion/sandag-can-still-deliver-transnet-promises/) published in the Voice of San Diego on January 6, 2017.)

In October 2016, when the Voice of San Diego published its first article about the *TransNet* revenue forecast, SANDAG Executive Director Gary Gallegos directed staff to dig deeper into the DEFM model and data sources to identify the root cause of what was driving taxable retail sales estimates. After an intense effort, technical staff discovered in November that there were aggregation errors in the model that resulted in optimistic forecasts of taxable retail sales. Again – those estimates were among many inputs used to forecast revenue for *TransNet* and Measure A.

Staff then developed an alternative (and more conservative) forecasting method to use while the DEFM model is being rebuilt and will develop future forecasts with a range of outcomes that capture the inherent uncertainty associated with forecasting. In addition, SANDAG recently reorganized its management team, combining the chief economist and technical services director positions into a single role to provide more integrated and robust oversight of the SANDAG forecasting process.

Ultimately, forecasting is about making an educated guess about the future based on a set of variables. Variables are dynamic because the world is constantly changing.

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