Basics of Revenue and Expenditure Forecasting

Presented by:
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Major themes:

- Forecasting is about seeing the “big picture” (i.e. developing strategy, as opposed to tactics)
- Fiscal turbulence impacts all communities (large/small; wealthy/not-so-wealthy)
- Incremental vs. multi-year approach (structural deficits, managing expectations)

Why is structural balance so elusive?

- Uncontrollable costs
- Constraints of Proposition 2½
- Variable state aid
- Lack of financial planning

The traditional approach to budgeting:

- Focused only on *next* year
- Line items in budget are changed incrementally year-after-year
- Often results in level service, level funded, or funding cuts

The case against the traditional approach

- Revenue and expenditures: no consideration for on-going relationship
- This year’s surplus – or balanced budget – can very quickly spiral into next year’s deficit

Multi-year budget planning

- Addresses future shortfalls (structural deficit) identified through forecasting
- Focuses on departments/programs (not line items)
- Calculates approximate funding for planned service levels

Why forecast?

- To manage expectations and gain consensus around assumptions
- To help enhance fiscal stability/enable corrective action
- To quantify financial impact of policy decisions

Key points to understand about forecasting before you start…

- In the beginning, forecasts almost always involve deficits
- Multi-year forecasts help identify trends
- Integrating timing of capital spending is crucial

The anatomy of a forecast…

- The revenue side
- The expenditure side (and, don't forget about capital!)
- Plan for monitoring/adjustments

The revenue side: taxes, state aid and local receipts

- Develop revenue inventory
- Analyze impact of rate changes or changes in economic conditions
- Craft reasonable assumptions for out-years

The revenue side (continued): use of available funds

- (Ordinarily) avoid using one-time revenue for ongoing expenses
- What are one-time revenues?
  - Stabilization: yes
  - Overlay Surplus: yes
  - Free Cash: depends

The expenditure side: personnel

- Quantify year-over-year salary obligations
  - Use contractual agreements for relevant employees
  - Make assumptions on non-contract employees
  - Estimate ongoing program/staffing needs

The expenditure side (continued): expenses and capital

- Estimate non-salary departmental expenses
- Make realistic assumptions on healthcare, other benefits and shared costs (some historical data available through DLS)
- Insert estimated costs of capital plan

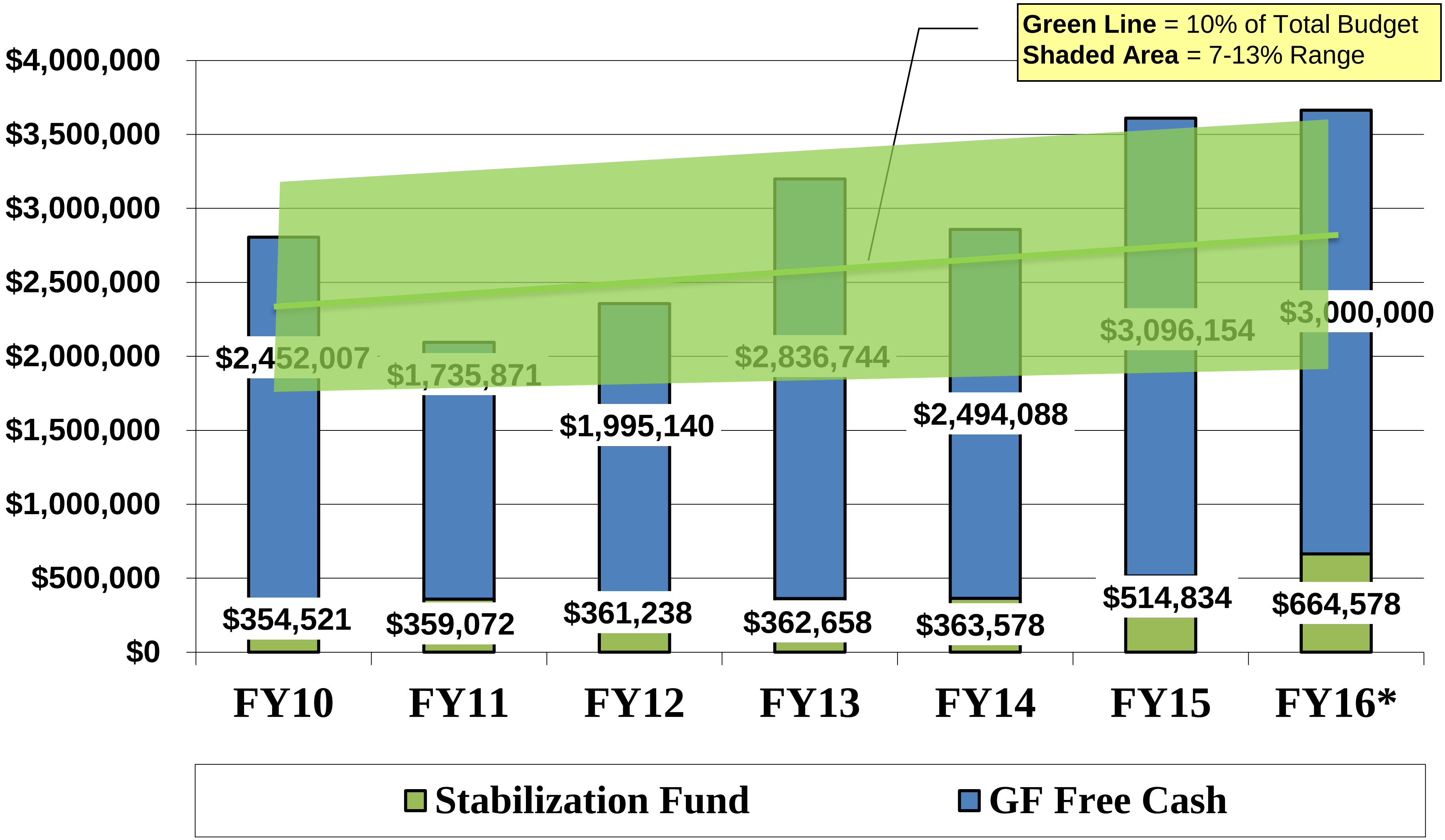
“Forecasting” and “planning” are not the same thing

- Forecasting is an <u>ongoing part</u> of planning
- For planning purposes, simply projecting revenue and expenses for multiple years is insufficient
- Deficits are an inevitable part of your forecast, but they should not be part of your financial plan

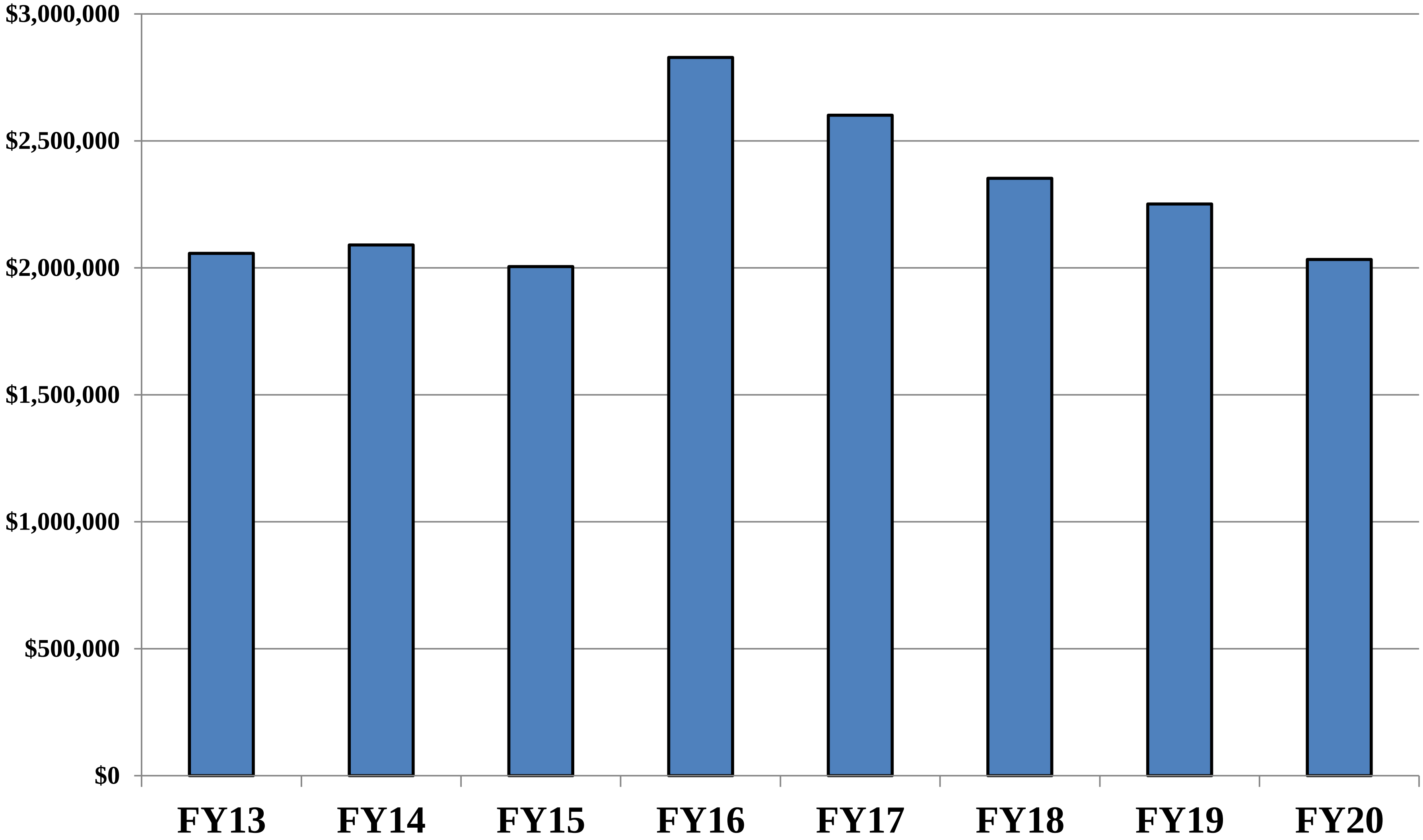
Lenox FY2016 Budget Priorities

- Maintain Core Services
- Tax Impact below 1.5%
- Maintain reserves between 7%-13% of budget
- Emphasis on capital
- Succession Planning
  - Loss of institutional knowledge is *expensive*
  - Take advantage of opportunities to partner with others

Financial Reserves (FY10 – FY16*)



Pay-as-you-go (PAYG) Capital Plan FY13-FY20



	CERTIFIED	ESTIMATED	PROJECTED	PROJECTED
TAX LEVY DASHBOARD	**FY2015**	**FY2016**	**FY2017**	**FY2018**
MAXIMUM ALLOWABLE LEVY	**14,671,371**	**15,215,003**	**15,745,282**	**16,670,718**
ACTUAL TAX LEVY	**14,275,612**	**14,487,916**	**14,799,318**	**15,671,494**
EXCESS CAPACITY	**395,758**	**727,087**	**945,964**	**999,224**
PERCENTAGE CHANGE	**1.87%**	**1.49%**	**2.15%**	**5.89%**

Wellesley's "Planning Maxims"

(From Hans Larsen's "Best Practices: Financial Planning" in City & Town, August 2008)

1. Focus on environmental changes; set priorities based on level of financial risk
2. Gain buy-in for your strategy
3. Simplify
4. Create a dashboard
5. Emphasize the need for accountability

Helpful resources:

- MMA and other organizations (ICMA, GFOA, etc.)
- Department of Revenue – Division of Local Services
- Your professional staff

Questions?

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