Forecasting Revenues and Expenditures:

Integrating Best Practices into Your Community's Financial Plan

Presented by:

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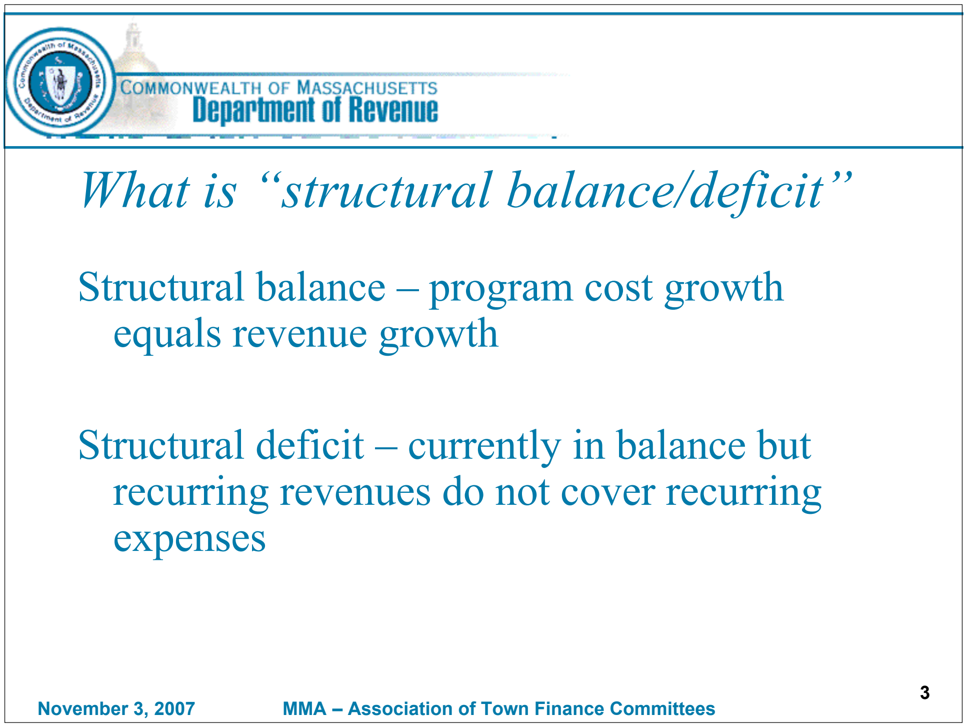
What I hope you will learn…

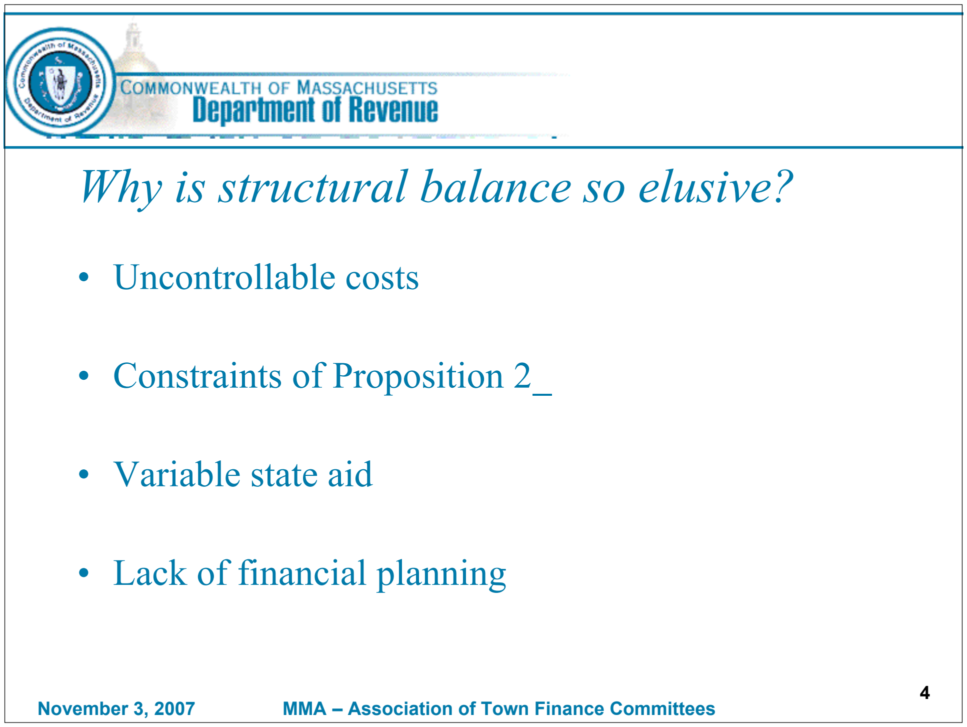
- The need to manage expectations in an environment of "structural deficits"
- The implications of which approach you take toward budgeting
- Help with forecasting is available through the Division of Local Services



What is "structural balance/deficit"

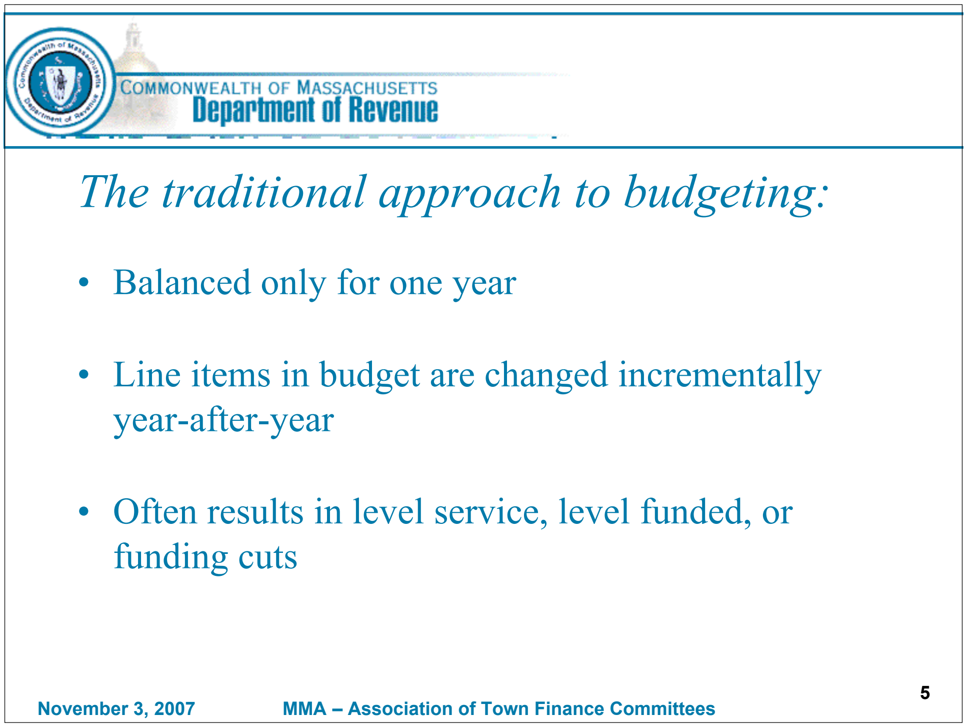
Structural balance – program cost growth equals revenue growth

Structural deficit – currently in balance but recurring revenues do not cover recurring expenses



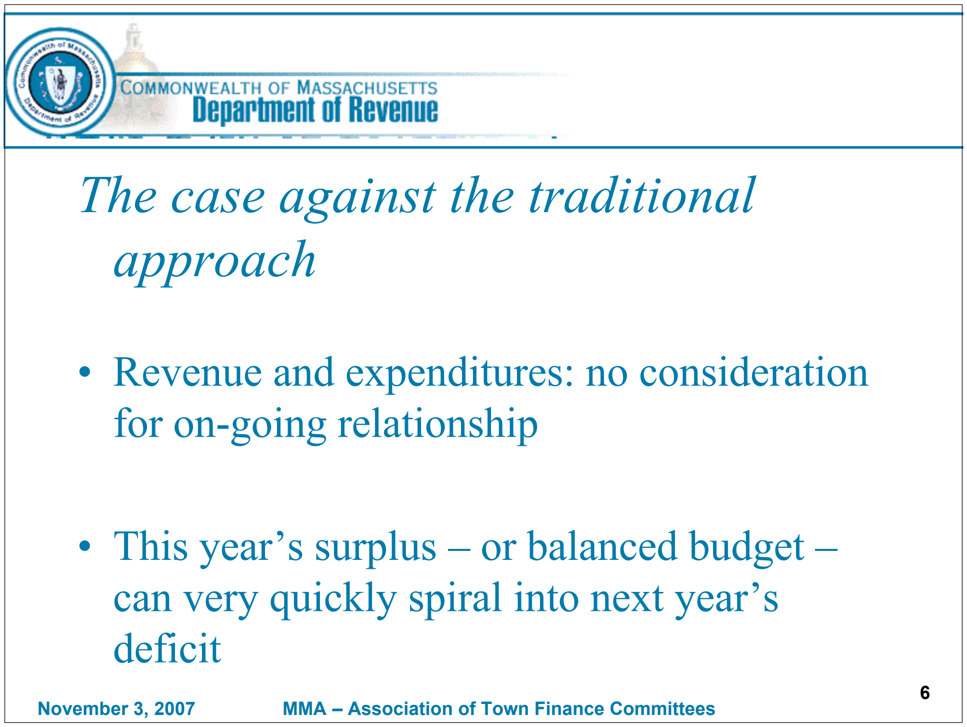
Why is structural balance so elusive?

- Uncontrollable costs
- Constraints of Proposition 2_
- Variable state aid
- Lack of financial planning



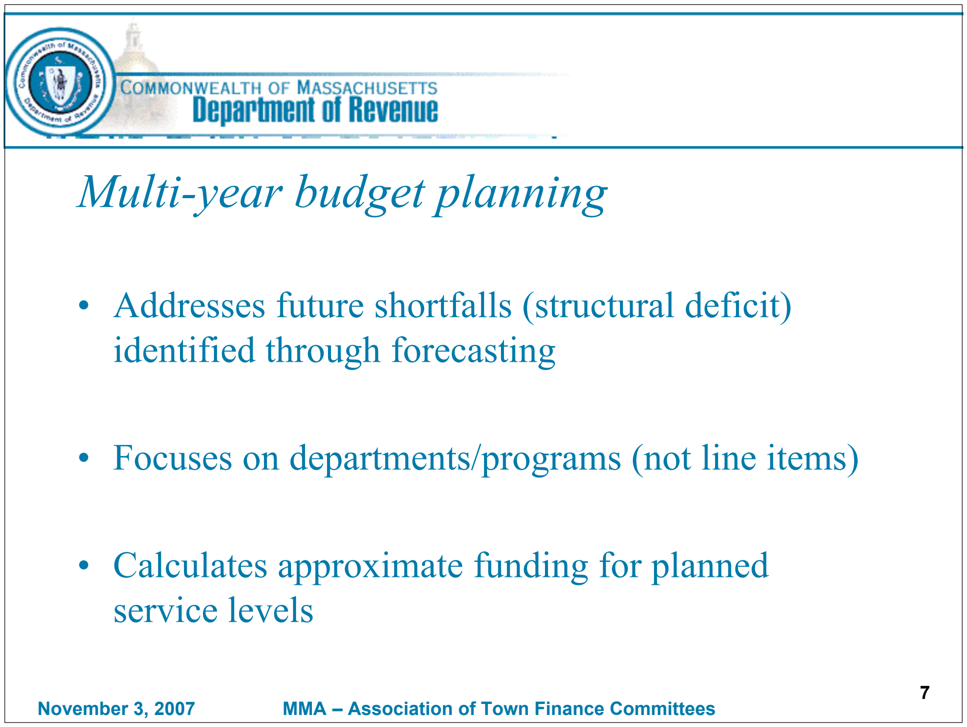
The traditional approach to budgeting:

- Balanced only for one 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



COMMONWEALTH OF MASSACHUSETTS
Department of Revenue

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

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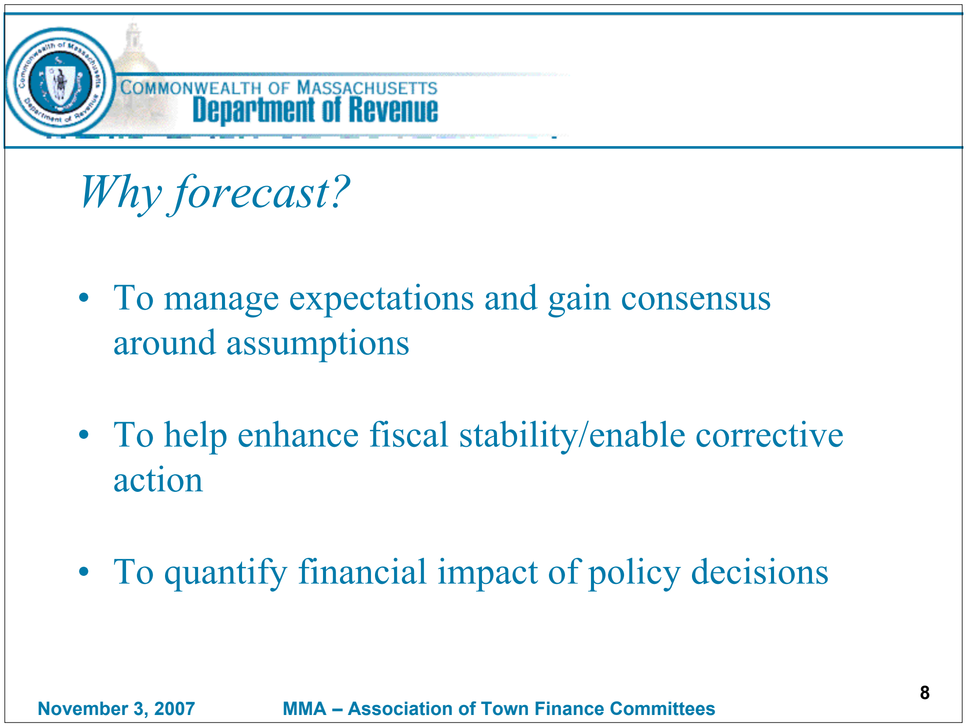

COMMONWEALTH OF MASSACHUSETTS
Department of Revenue

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

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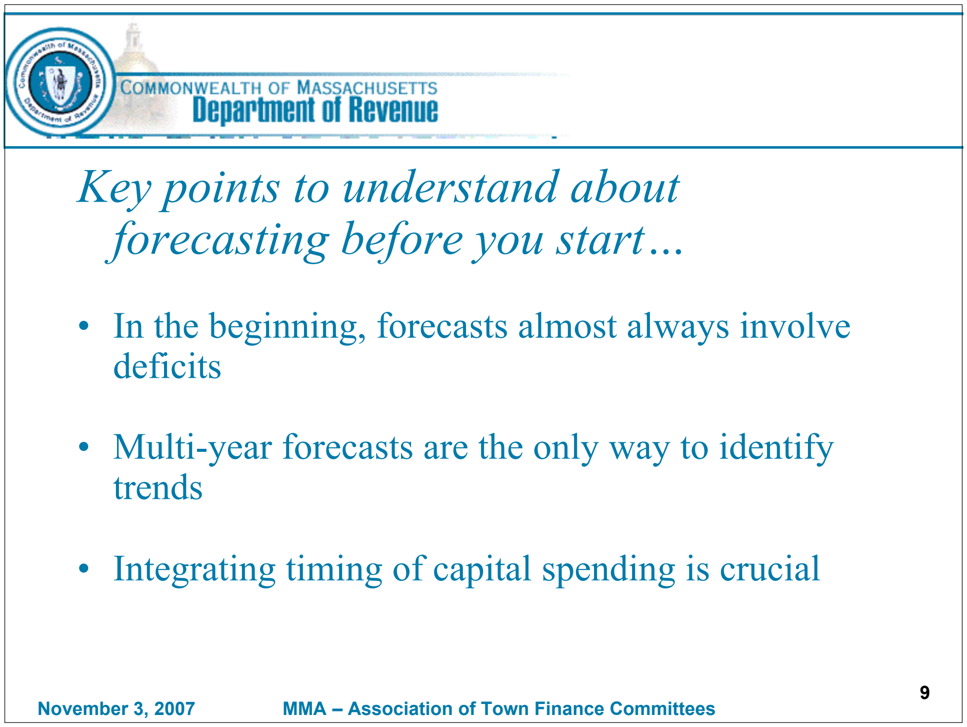
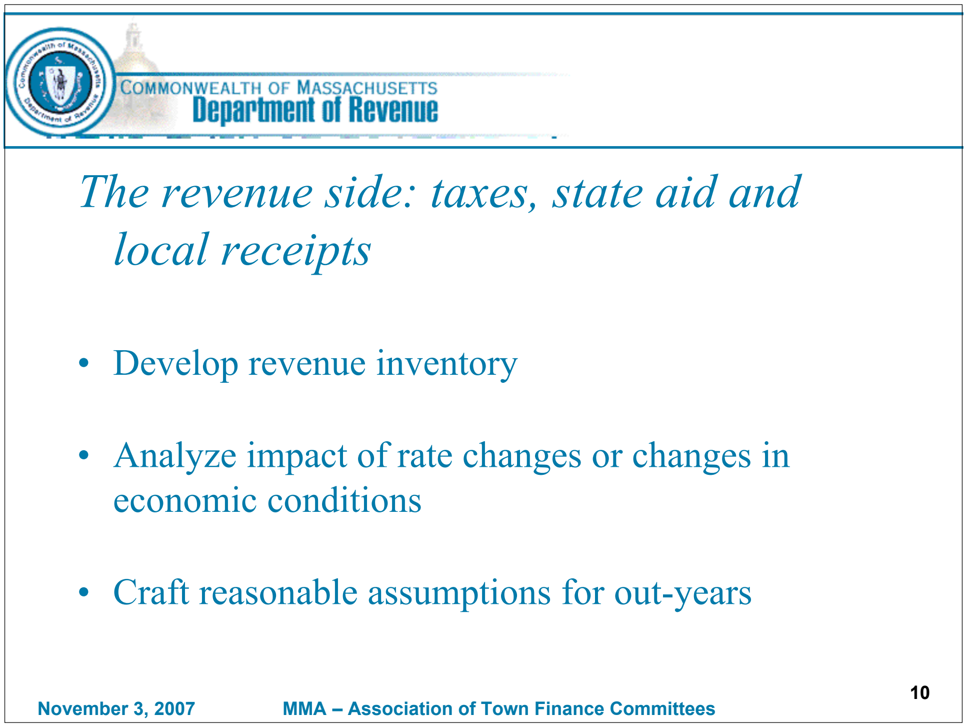


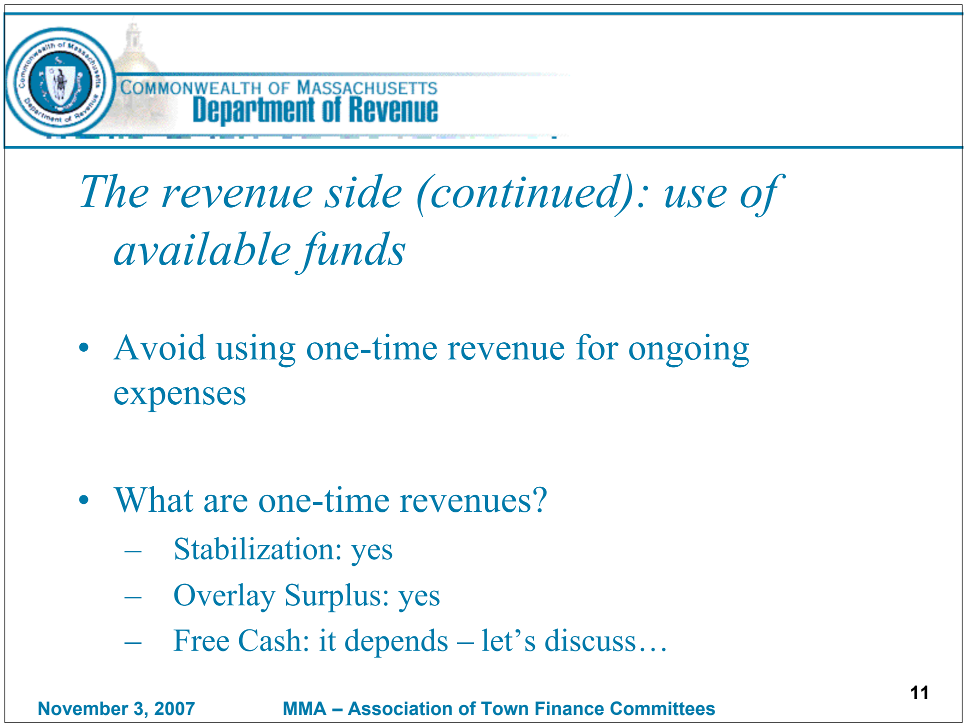
Key points to understand about forecasting before you start…

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



The revenue side: taxes, state aid and local receipts

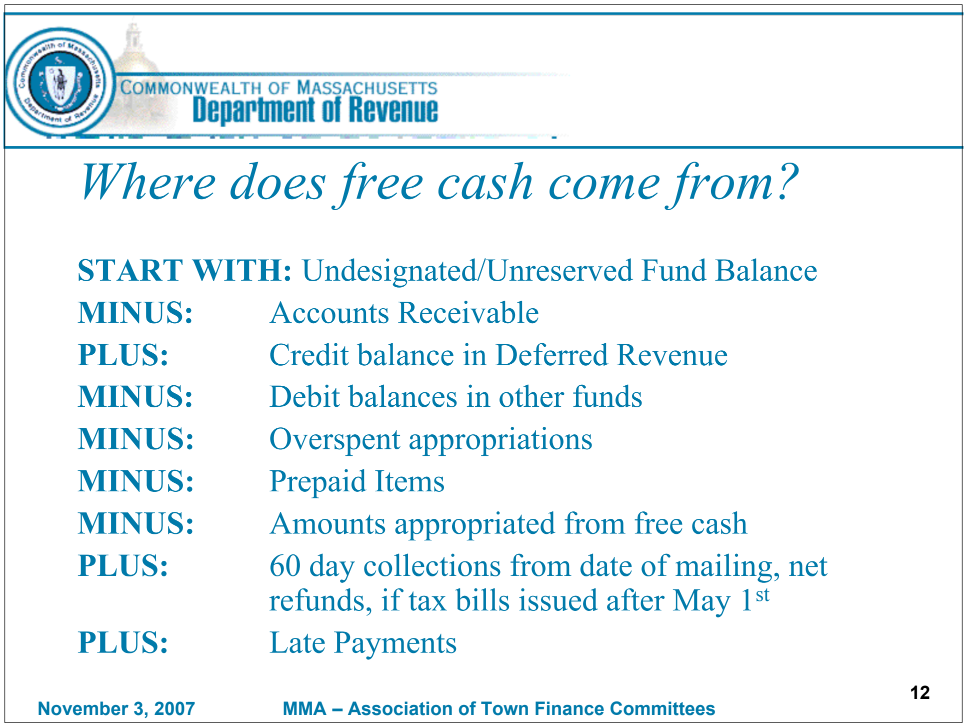
- Develop revenue inventory
- Analyze impact of rate changes or changes in economic conditions
- Craft reasonable assumptions for out-years



The revenue side (continued): use of available funds

- Avoid using one-time revenue for ongoing expenses

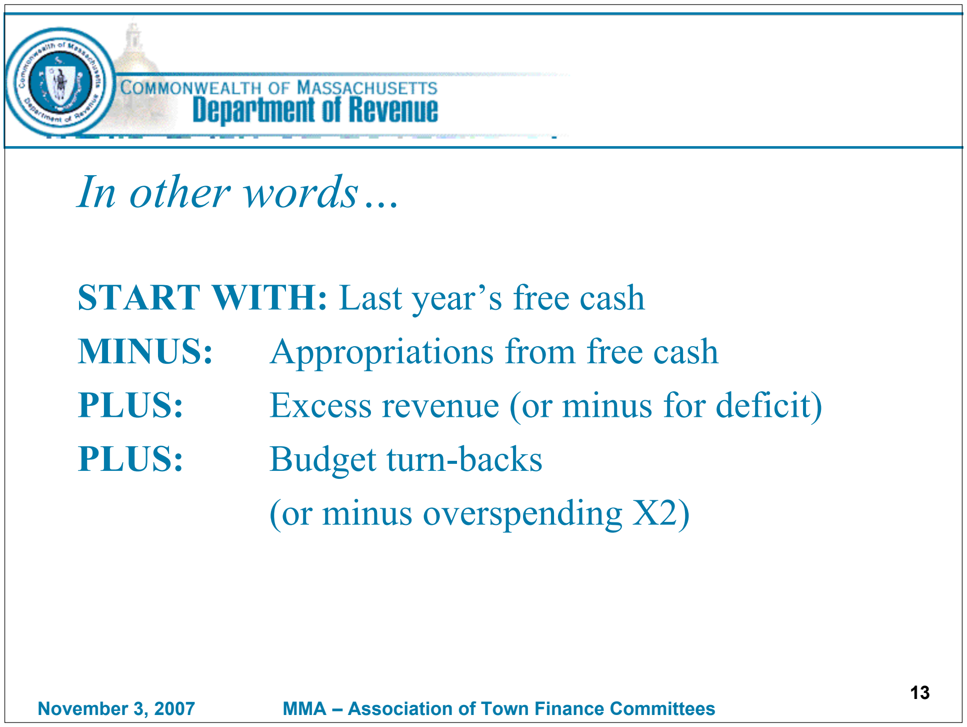
- What are one-time revenues?
  - Stabilization: yes
  - Overlay Surplus: yes
  - Free Cash: it depends – let’s discuss…



Where does free cash come from?

START WITH: Undesignated/Unreserved Fund Balance

MINUS:	Accounts Receivable
PLUS:	Credit balance in Deferred Revenue
MINUS:	Debit balances in other funds
MINUS:	Overspent appropriations
MINUS:	Prepaid Items
MINUS:	Amounts appropriated from free cash
PLUS:	60 day collections from date of mailing, net refunds, if tax bills issued after May 1st
PLUS:	Late Payments



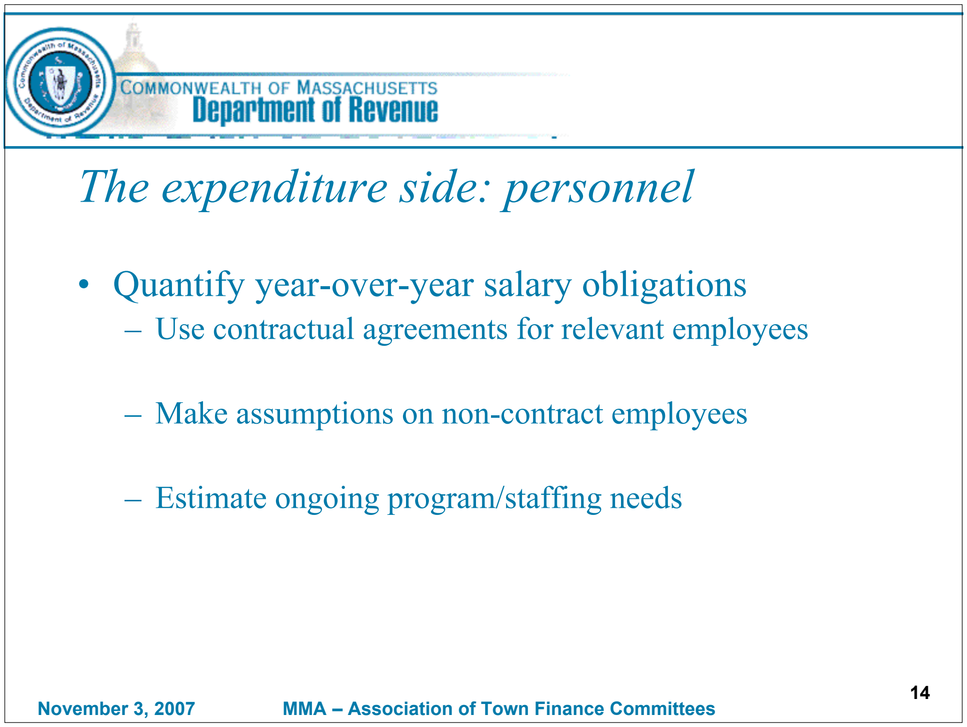
In other words…

START WITH: Last year's free cash

MINUS: Appropriations from free cash

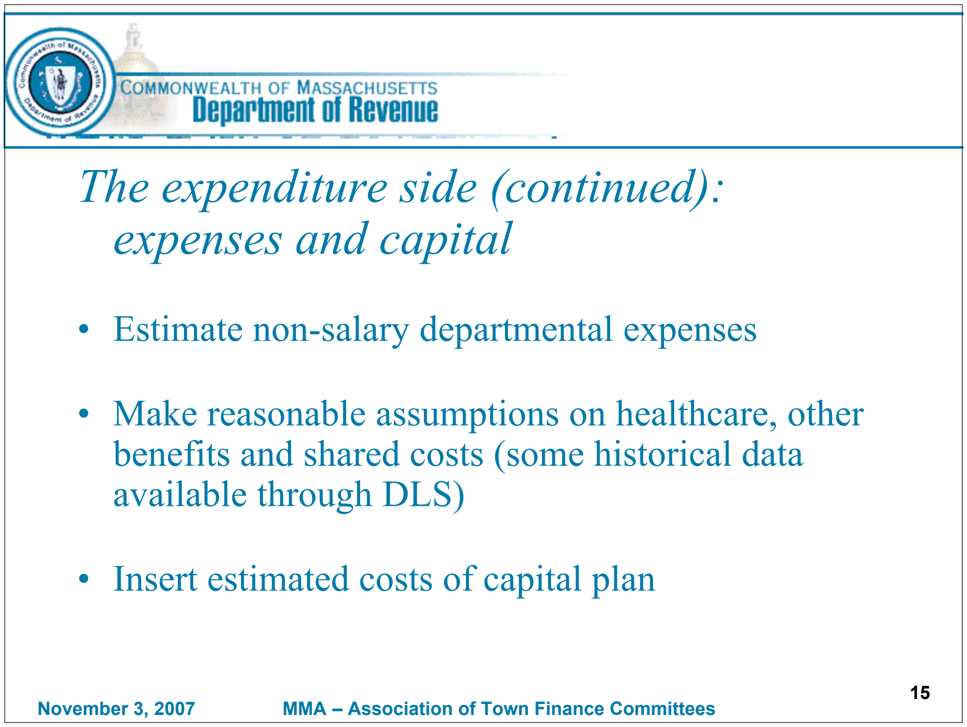
PLUS: Excess revenue (or minus for deficit)

PLUS: Budget turn-backs
(or minus overspending X2)



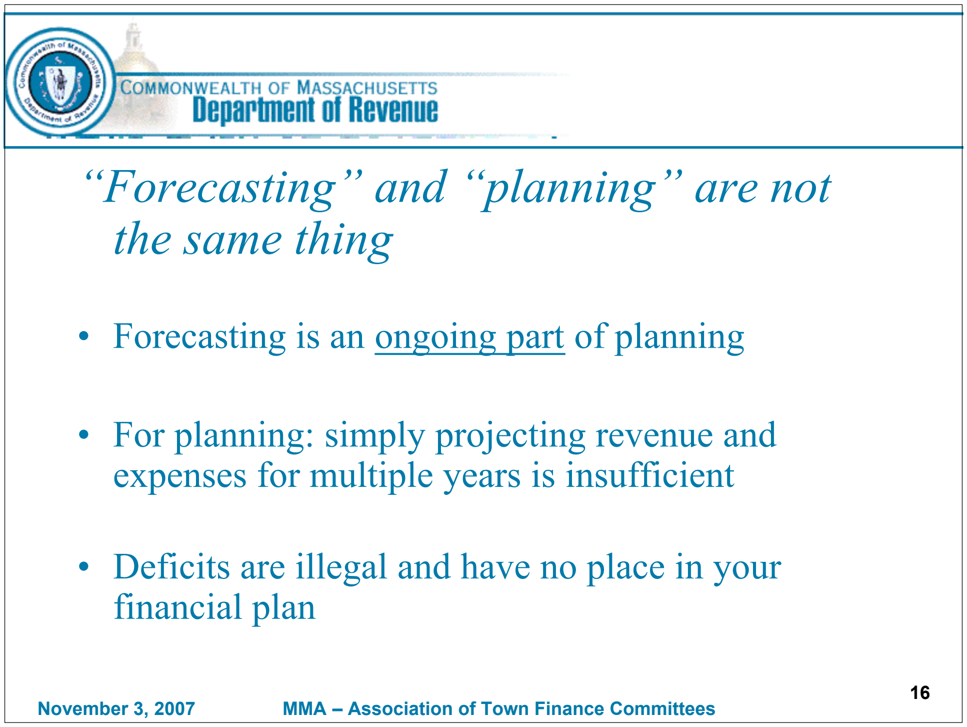
The expenditure side: personnel

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



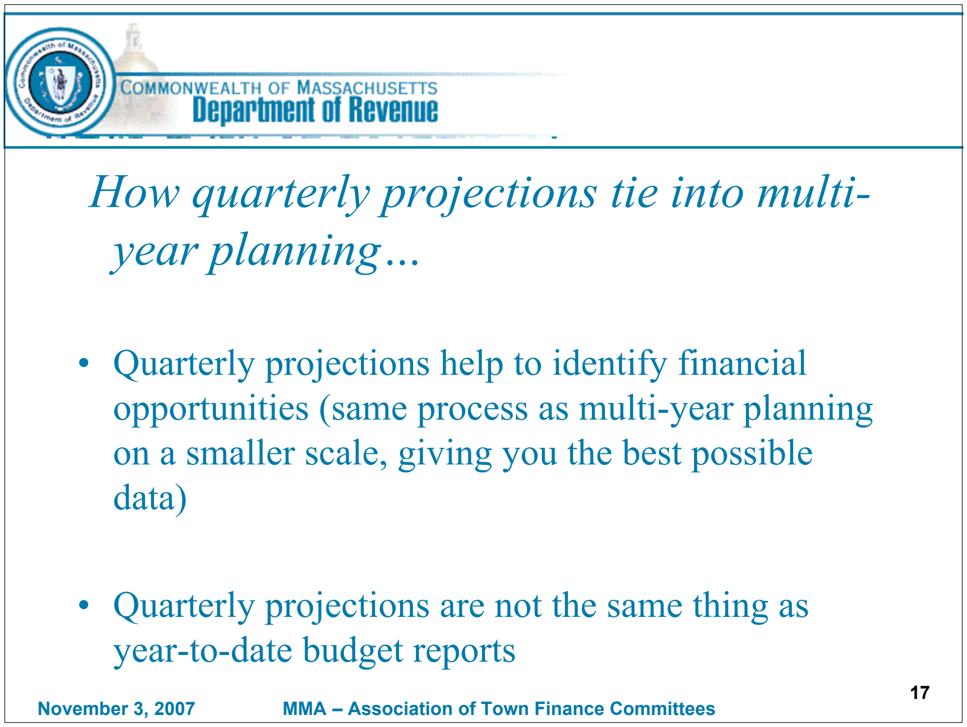
The expenditure side (continued): expenses and capital

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



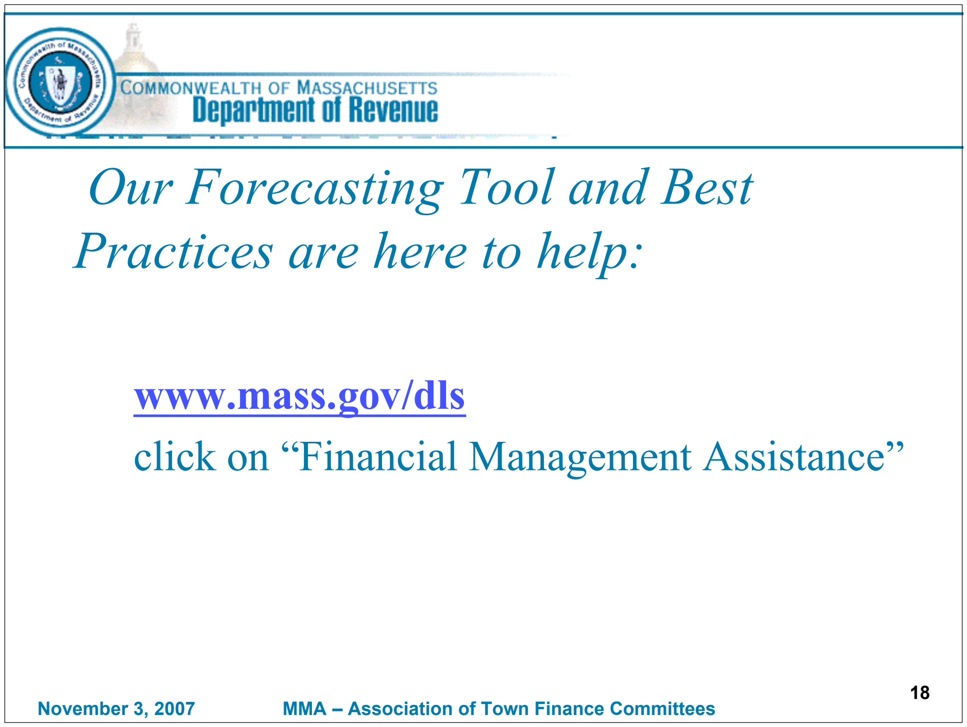
“Forecasting” and “planning” are not the same thing

- Forecasting is an ongoing part of planning
- For planning: simply projecting revenue and expenses for multiple years is insufficient
- Deficits are illegal and have no place in your financial plan



How quarterly projections tie into multi-year planning…

- Quarterly projections help to identify financial opportunities (same process as multi-year planning on a smaller scale, giving you the best possible data)
- Quarterly projections are not the same thing as year-to-date budget reports



Our Forecasting Tool and Best Practices are here to help:

www.mass.gov/dls

click on “Financial Management Assistance”