

Finance and Budgeting Basics

Financial Forecasting
Capital Planning
Tax Recapitulation

Financial Forecasting

- Options
 - Purchase “Canned” Software
 - Use the State “Forecasting Tool”
(DOR Home Page then search on “Forecast”)
 - Develop your own defensible methodology and be prepared to explain where the numbers came from. Nobody appreciates a Houdini when it comes to tax dollars!

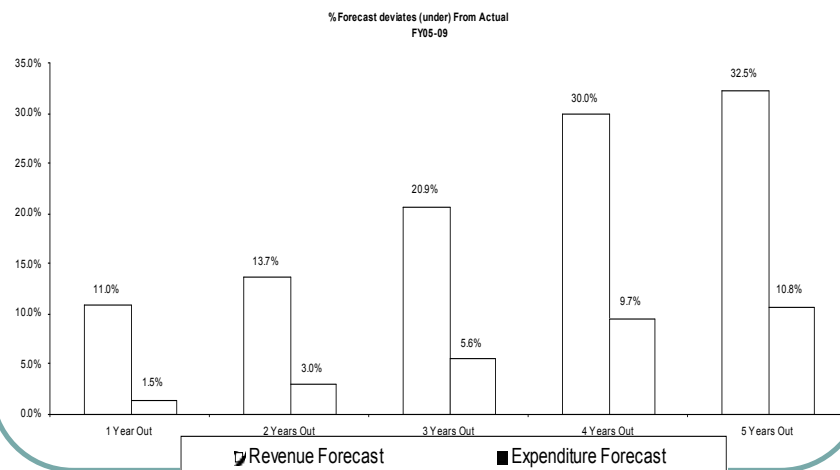
Purpose (aka Disclaimer)

This forecast is meant to be a tool used by the Board of Selectmen, Finance Committee and administrative staff to review trends and determine the effects of decisions that are made. Long-term financial planning is not meant to be an exact science and cannot include all possible scenarios or new costs that the town may face in the future. It also cannot predict economic downturns and/or major state aid reductions or increases beyond what can be estimated based on past trends. It does provide information regarding likely scenarios based on present knowledge and past trends.

Forecasting Method – Sturbridge

- We previously used trend analysis formulas for each line item and then did a “reality check” on every line item to ensure accuracy and to address anomalies.
- Now we review each budget line item and forecast out for five years based on known impacts such as labor or other contracts, debt service, supply costs. We use trend analysis for just a few line items that have linear trends.

How Accurate?



Trend Analysis – Good Example

Line Item:		Street Lights							
Fiscal Year	Budget/Trend	Forecasted	Actual	Trend Variance	Forecast Variance				
2000	43,230								
2001	39,000								
2002	50,000								
2003	45,000								
2004	45,000								
2005	47,308	45,000	45,000	-4.9%	0.0%				
2006	48,746	50,000	48,375	-0.8%	-3.3%				
2007	47,151	50,000	50,000	6.0%	0.0%				
2008	49,056	55,000	50,260	2.5%	-8.6%				
2009	49,839	55,000	50,000	0.3%	-9.1%				

Trend Analysis – Bad Example

Line Item:	Retirement																	
Fiscal Year	Budget/Trend	Forecasted	Actual	Trend Variance	Forecast Variance													
2000	354,315																	
2001	246,294																	
2002	262,680																	
2003	312,844																	
2004	342,002																	
2005	316,204	375,000	376,547	19.1%	0.4%													
2006	361,748	405,000	493,885	36.5%	21.9%													
2007	379,544	435,000	475,481	25.3%	9.3%													
2008	388,412	465,000	493,702	27.1%	6.2%													
2009	404,430	495,000	536,406	32.6%	8.4%													

Conclusion

- There a number of different ways that you can undertake financial forecasting – find the one that works best for you.
- It is important – it gives everybody a general understanding of where current decisions may take your community.
- It is not exact and this needs to be made clear to all or it can cause you to lose credibility and create distrust in future years.

Somewhere between Financial Forecasting and Capital Planning

- Road Management Program – Sturbridge has developed it's own Road Management Program to explain, prioritize and promote horizontal infrastructure improvements.
- Personnel Committee – Depending on the structure and function of a Personnel Committee – this Committee can be useful in justifying staffing, upgrades to positions and planning longer term staffing needs.

Capital Improvement Plans

- Purpose – To develop a fair, standardized method of balancing competing needs of various departments.
- Capital Plans establish clear expectations among department heads, decision makers and the public.
- Establish Criteria – how to prioritize needs
- Identify Funding Mechanisms

Process

- The process the Committee used is the same as the previous several years with a 10-factor rating system with each factor rated between 0 – 10. This allows each request to receive a rating up to “100”. The factors are: public safety & health, infrastructure needs, quantity of use, efficiency of services, legal requirements, public support, personnel impacts, service impacts, budgetary constraints and administrative needs.
- The plan as presented is consistent with the comprehensive fiscal guidelines approved by the Selectmen and Finance Committee in 2005. The guidelines state that items that are rated high enough and are (1) under \$5,000 should be included in the department budget; (2) that items from \$5,000 to \$100,000 should be included in the Capital Plan Article; (3) that items over \$100,000 should either be included in the Capital Plan Article or can be included for consideration as a debt issuance.

Conclusion

- A good defensible Capital Plan will assist you in explaining the capital needs and priorities of the town government.
- A good Capital Plan will defuse (somewhat anyway) the interdepartmental issues involved with capital acquisition and replacement.
- Over time allows some standardization of capital replacement practices.
- You also need to review carefully to ensure that smaller capital needs are being met.

Tax Recapitulation Sheet

- The basis for revenue figures is the Financial Forecast - updated with any new information (Dec vs. Aug) available.
- Expenditures as per the budget approved by town meeting and other town meeting votes.
- Double check for accuracy (Board of Assessors and Town Administrator) to ensure it's approved quickly.