



**DAVE YOST**  
Ohio Auditor of State



## Long Term Planning/Cash Basis Forecasting

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## What services can you afford?

- Can you afford a new or currently existing service?
- How do you know if you can or can't afford them?
  - What are your "real" current revenues?
  - What are your "real" current expenses?
- Do you have reserves for an emergency or downturn in the economy?
- What is the long-term effect of these new/existing services?

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## Who should be involved in the process?

- Chief Operating Officer(s) – Mayor, Trustees
- Chief Financial Officer – Fiscal Officer
- Department heads
- Process should be all inclusive so that all parties are aware of the financial situation and priorities can be set.

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## Long-Term Planning

- Need for Long-Term Planning
  - Identify programs, activities, service levels – Prior Appropriations Measure
  - Identify projects and their duration
  - Identifies funding sources and amounts – Certificate of Estimated Resources
  - Sets priorities and document plans
  - Determine effect on community and duration of the project

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## Long-Term Planning

- What Should a Long-Term Plan Include?
  - An Operating Plan
  - A Capital Plan

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## Long-Term Planning

- Long-Term Operating Plan
  - Based on historical trends
    - Assumes existing programs will continue at the same level of service, now and in the future.

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## Long-Term Planning

- Long-Term Operating Plan
  - A more formal approach would include:
    - Adjustments for new or terminated activities
    - Adjustments for increased or decreased services
    - Adjustments for unusual or infrequent items
    - Assessing current activities to determine a less expensive means of providing services
    - Review of tax levies (new, replacement, renewal)
    - Subsidies to other operating funds

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## Long-Term Planning

- Capital Plans
  - Plan for capital expenditures over a period of years
  - Sets forth each project or other contemplated expenditure in which the local government is to have a part
  - Identifies the resources to be available to finance the project

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## Long-Term Planning

- Which Plan should come first?
  - Operating Plan
  - Capital Plan

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## Long-Term Planning

- Where do you Start?
  - Develop a list of projects - no ceiling, include roads, bridges, buildings, parks and recreation facilities
  - Identify replacement of existing vehicles and equipment
  - Set priorities
  - Identify resources to finance the expenditures

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## Long-Term Planning

- Approaches to Financing Capital Needs
  - An all borrowing policy - debt limitations and available resources to pay debt come into play
  - Capital reserve plan - accumulating, annual, resources for projects
  - Partial pay-as-you-go - is a common approach, some accumulation of resources and the balance with debt
  - Pay-as-you-go plan - uses existing cash, works if not behind on projects, no backlogs, no emergencies, and budget can absorb variances/spikes from one year to another

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## Long-Term Planning

- Tools Available for Capital Expenditures
  - Notes and Bonds – inside or outside millage
  - Loans – OPWC/OWDA/EPA, etc.
  - Special levies
  - Grants
  - Special assessments
  - ORC 5705.13 Capital Projects Fund

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## Long-Term Planning

- Reserve Balance Accounts – SR Fund – CP Fund (ORC 5705.13):
  - Reserve Balance Account
  - Special Revenue Fund - Termination Benefits/Excess Pay Periods
  - Capital Projects Fund

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## Long-Term Planning

- Reserve Balance Accounts (ORC 5705.13)
  - A taxing authority may establish a reserve balance account for the following:
    - To stabilize the budget
    - To provide for the payment of self-insurance claims
    - To provide for the payment of claims under a retrospective ratings plan for workers' compensation

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## Long-Term Planning

- Reserve Balance Accounts (ORC 5705.13)
  - Shall be established in the general fund, or in 1 or more special funds for operating purposes.
  - Shall not exceed five per cent of the revenue in the preceding year to the fund in which the account is established.
    - ✧ Counties/Townships are the greater of that amount or 1/6 expenditures of preceding year.

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## Long-Term Planning

- Special Revenue Fund (ORC 5705.13)
  - Accumulates resources for the payment of sick leave and vacation leave, and for payments in lieu of taking compensatory time off, upon the termination of employment or the retirement of employees/officers.
  - May also accumulate resources for payment of salaries during any fiscal year when the number of pay periods exceeds the usual and customary number of pay periods.

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## Long-Term Planning

- Capital Projects Fund (5705.13)
  - Accumulates resources for the acquisition, construction, or improvement of fixed assets, including motor vehicles
  - More than one capital projects fund may be established and may exist at any time

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## Long-Term Planning

- Capital Projects Fund (5705.13)
  - The ordinance or resolution shall identify:
    - The source of the money to be used
    - The amount of money to be accumulated
    - The period of time over which that amount is to be accumulated
    - The fixed assets the entity intends to acquire, construct, or improve with the money.

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## Long-Term Planning

- Capital Projects Fund (5705.13)
  - The time limit to obligate resources is 10 years
  - If no contract by that time, the fiscal officer is to return all money to the originating fund or funds
  - A taxing authority may rescind a capital projects fund with the money returned to the originating fund or funds

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## Long-Term Planning

- For Operating and Capital Plans, what type of Legislative approval should there be?
  - Long-Term Operating Plan
    - Choice of the Legislative Body
    - Commitment is the current year Appropriation Measure
  - Capital Plans
    - Choice of the Legislative Body
    - Commitment to a project takes place when appropriated and bids are authorized

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## Financial Forecasts

What is a financial forecast?

- A financial forecast is prospective financial statements that present to the best of the management's knowledge and belief, the government's expected revenues, expenditures and fund balance.
- It is based on management's assumptions reflecting conditions it expects to exist and the course of action it expects to take.

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## Financial Forecasts

- **Management** – Those persons who are expected to direct the operations of the entity during the prospective period. Management typically refers to those persons at the highest level of authority within the entity.
- **Assumptions** – The building blocks for the forecast developed from the key factors. They identify significant matters that are expected to occur, based on an entity's plans.

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## Financial Forecasts

- **Key Factors** – The significant matters on which a government's future results are expected to depend. Such factors are basic to the government's operations and thus encompass matters that affect, among other things, the government's financial activities. Key factors serve as a foundation for prospective financial information and are the basis for the assumptions.

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## Financial Forecasts

- A financial forecast is used:
  - As a planning tool
  - To identify to governments whether they can do the projects they are planning.
  - To identify to governments whether or not they are headed toward financial difficulty.

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## Financial Forecasts

- What are management's responsibilities?
  - Reasonableness of the assumptions
  - Preparation of the forecast
  - Accuracy of the presented figures

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## Forecast Preparation Guidelines

- AICPA "Guide for Prospective Financial Information" provides general guidelines to the responsible party for preparing financial forecasts. These are:
  - Forecasts should be prepared in good faith
  - Forecasts should be prepared with appropriate care by qualified personnel
  - Forecasts should be prepared using appropriate accounting principals

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## Forecast Preparation Guidelines

- Assumptions used in preparing forecasts should be appropriate
- Key factors should be identified as a basis for the assumptions
- Information used in preparing forecasts should be consistent with the plans of the entity

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## Forecast Preparation Guidelines

- Process used to develop forecasts should provide a means to determine the relative effect of variations in the major assumptions (salaries)
- Process used should provide adequate documentation of the forecast and the process used to develop it
- Process used to develop forecasts should provide for seeking out the best information that is available at the time

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## Forecast Preparation Guidelines

- Process used to develop forecasts should include the regular comparison of the forecast with the actual results
- Process used to prepare forecasts should include adequate review and approval by the responsible party at the appropriate levels of authority

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## Assumptions and Key Factors

- Property Taxes
  - The type of levies, rate or dollar amount, year of approval, first and last year of collection
  - Full and effective rates (real and commercial)
  - Assessed valuations
  - Triennial and sexennial updates
  - Delinquent taxes and collections
  - New and expiring levies
  - Current amended certificate

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## Assumptions and Key Factors

- Municipal Income Taxes
  - Levy rate and effective period
  - Department of Taxation estimates
  - Income trends for area
  - Unemployment trends for area
  - New businesses for area

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## Assumptions and Key Factors

- Local government revenues
- Grants
- Homestead and Rollback

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## Assumptions and Key Factors

- Fines and Fees
- Interest
- Licenses and Permits
- Rentals
- Miscellaneous

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## Assumptions and Key Factors

- Personal Services
  - Bargaining unit contract dates
  - Salary schedules
  - Staff positions
  - Severance pay
  - Retirement incentives
  - Computation of salaries (old/new rates)

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## Assumptions and Key Factors

- Fringe Benefits
  - Pension payments (% of salaries) and the method of payment
  - Health Care Benefits
  - Purchase of service credit
  - Workers' compensation premiums/rates/rebates
  - Other benefits

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## Assumptions and Key Factors

- Contractual Services/Materials & Supplies
  - Significant contractual obligations
  - Materials and supplies needed
  - Inflation factor
  - Utilities

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## Assumptions and Key Factors

- Capital Outlay
  - Capital Assets to be purchased
    - Land
    - Buildings
    - Furniture and Equipment
    - Vehicles

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## Assumptions and Key Factors

- Capital Outlay
  - Capital Assets to be constructed
    - Infrastructure – In-Kind Contributions
  - Capital Assets to be acquired
    - Local share of contributed assets

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## Assumptions and Key Factors

- Debt Service
  - Principal and Interest on debt payments
    - Example: Street truck, fire truck, building debt issue

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## Assumptions and Key Factors

- Miscellaneous
  - Other expenditures that don't fall into any of the other categories
  - Non-reoccurring items
  - Spending practices

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## Assumptions and Key Factors

- Other Funds
  - Deficits or anticipated deficits
  - Fire Levy fund
  - Police Salary Levy fund
  - Transfers to ORC 5705.13 Funds
    - Termination Payments/Excess Pay Periods
    - Capital Projects

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## Successful Planning

- Maintain all documentation and materials supporting the values and the assumptions
- Update on an ongoing basis as additional information and plans become available.
  - Grant Awards
  - Construction Contracts
  - Debt Issuance

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