

**2018 Local Government  
Officials Conference**

March 22, 2018

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**What is a Forecast and How can  
it be used to benefit your  
Organization**

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**What is a Forecast?**

- Assists in the communication of the Vision and Goals of the organization
  - \*Wise resource management\*
  - \*Information based accountability\*
  - \*To increase effectiveness of the organization\*
- Financial representation of the entity's programs

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## What is a Forecast?

- Based on assumptions at time of development
- Accuracy requires significant contributions from all stakeholders
- Management tool for planning
- It is a living document requiring change when new information becomes available

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## What isn't a Forecast?

- Not a guarantee of performance
- Not a given amount for negotiations
- Not 100% accurate
  - Accuracy diminishes with time
  - Accuracy diminishes with program changes

\*This forecast is no longer accurate as something has changed since I printed it\*

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## Types of Forecasts

- Enrollment/Population/Housing starts
- Cash Flow
- Debt Service
- Capital Plan
- Operating

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## Why are Forecasts Important

- Enrollment/Population/Housing
  - Knowing the estimated people to serve in the future helps planning
- Cash Flow
  - By forecasting your organizations inflows and outflows on a monthly basis you can determine what resources are available for investment
  - This can result in more interest income for the entity
- Debt Service
  - All of us with debt have a debt schedule already created.
  - Ensures timely payment
  - Allows funds to be included in cash flow forecast

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## Why are Forecasts Important

- Capital Plan
  - Allows for project prioritization with limited resources
  - Communication tool to your community
  - Allows your entity to look into the future to determine additional needs
- Operating
  - Assists the elected body and public to understand the financial impact of operational decisions
  - Can assist in resource allocation
  - Transparency and Communication

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## How long should a Forecast be for?

- Daily for a year or more
- Monthly for a year or more
- Annually for multiple years
  - 5
  - 25
  - 37
- Duration of Project

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## How long should a Forecast be for?

- Cash Flow – Allowable investment term limit
- Debt Service – length of longest maturity or longer
- Capital
  - Detailed 5 year
  - Broad based 25 year
- Operating
  - 5 years or a minimum to show impact of future tax cycles

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## How do we report forecast?

- Department
- Building
- Program
- Revenue & Expenditure type
  
- What ever is easiest to communicate with public

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## How do we forecast revenues?

- Real estate taxes
- Income taxes
- Sales taxes
- State revenue
- Grants
- Bond Proceeds
- Other local revenue
- Enterprise fund income

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## How do we forecast expenditures?

- Wages
  - 0% or 3% or somewhere between?
- Benefits
  - Retirement
  - Health insurance

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## How do we forecast expenditures?

- Purchased services
  - Utilities
  - Legal fees
  - Other
- Materials/Supplies
- Equipment
  - Land purchase?
  - Buildings and fixtures
  - Infrastructure
- Miscellaneous

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## Forecast Philosophy

- Conservative
  - Low revenue & high expense
  - Risk of having a larger balance than necessary
- Aggressive
  - High revenue & low expense
  - Risk of shortfall
- Realistic/Best Estimate
  - Anticipated revenue and expense
- All have implicit bias

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## Forecast Philosophy

- Risk Aware forecast
  - Probability analysis of revenue & expense
  - Assigns probability of achievement
  - Monte Carlo Analysis
  - Allows for simulations based on varying risk taking
    - 80% chance of meeting revenue target
- Eliminates bias and includes more stakeholders



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## What to look for?

- Revision date
- Detailed Notes
- Significant variations between versions

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## How can we educate our Community?

- Communication
  - Board members
  - Community members
  - Administration
- Knowledge/Understanding
- Finance committee?
- Appropriate use of time

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## How can we manage our future?

- Negotiated agreements
- Legislative involvement
- Future levy

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## Meeting the Challenge



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## Information

- GFOA Publication – Informed Decision Making Through Forecasting  
[www.gfoa.org/forecastbook](http://www.gfoa.org/forecastbook)

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## Questions?

- Contact information:

[jmccuen@wscould.org](mailto:jmccuen@wscould.org)

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