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

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
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

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”

Types of Forecasts

- Enrollment/Population/Housing starts
- Cash Flow
- Debt Service
- Capital Plan
- Operating
Why are Forecasts Important

- Enrollment/Population/Housing
  - Knowing the estimated people to serve in the future helps planning

- Cash Flow
  - By forecasting your organization's 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

- 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

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
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

How do we report forecast?

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

How do we forecast revenues?

- Real estate taxes
- Income taxes
- Sales taxes
- State revenue
- Grants
- Bond Proceeds
- Other local revenue
- Enterprise fund income
How do we forecast expenditures?

• Wages
  o 0% or 3% or somewhere between?

• Benefits
  o Retirement
  o Health insurance

• Purchased services
  o Utilities
  o Legal fees
  o Other

• Materials/Supplies

• Equipment
  o Land purchase?
  o Buildings and fixtures
  o Infrastructure

• Miscellaneous

Forecast Philosophy

• Conservative
  o Low revenue & high expense
  o Risk of having a larger balance than necessary

• Aggressive
  o High revenue & low expense
  o Risk of shortfall

• Realistic/Best Estimate
  o Anticipated revenue and expense

• All have implicit bias
Forecast Philosophy

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

What to look for?

• Revision date
• Detailed Notes
• Significant variations between versions

How can we educate our Community?

• Communication
  o Board members
  o Community members
  o Administration
• Knowledge/Understanding
• Finance committee?
• Appropriate use of time
How can we manage our future?

• Negotiated agreements
• Legislative involvement
• Future levy

Meeting the Challenge

Information

• GFOA Publication - Informed Decision Making Through Forecasting
  www.gfoa.org/forecastbook
Questions?

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