FINANCIAL FORECASTING

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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
  • Increase effectiveness of the organization
• Financial representation of the government’s programs
• Identifies whether or not you are headed toward financial difficulty

Why Do a Forecast?

• 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 any new/existing services?
What is a Forecast?
Based on assumptions at the time of development.

- Accuracy requires significant contributions from all stakeholders.
- Management tool for planning and reflecting your entity’s course of action (can you afford what is on your “wish list”)?
- Living document requiring change when new information becomes available.

What isn’t a Forecast?

- Not a guarantee of performance (best estimate).
- Not a given amount for negotiations.
- Not 100 percent accurate:
  - Accuracy diminishes with time.
  - Accuracy diminishes with program changes.

Financial Forecasts

- Stakeholders – Those persons who are expected to direct the operations of the entity during the prospective period.

  - Process should be all inclusive so that all parties are aware of the financial situation and priorities can be set.
Financial Forecasts

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

Forecast Preparation Guidelines

Key Factors
- The significant matters on which a government’s future results are expected to depend
- Basic to the government’s operations
- Encompass matters that affect, among other things, the government’s financial activities
- Serve as a foundation for prospective financial information
- Basis for the assumptions

- AICPA “Guide for Prospective Financial Information” provides general guidelines to the responsible party for preparing financial forecasts. Forecasts should be prepared:
  - In good faith
  - With appropriate care by qualified personnel
  - Using appropriate accounting principals
Forecast Preparation Guidelines

Assumptions
• Building blocks for the forecast developed from the key factors
• Identify significant matters expected to occur, based on an entity’s plans

Forecast Preparation Guidelines
Process used to develop forecasts should provide:
✓ A means to determine the effect of changes in major assumptions (salaries)
✓ Adequate documentation of the forecast numbers and the process used to develop the numbers
✓ For seeking out the best information available
✓ Comparison of the forecast with actual results
✓ Adequate review and approval by the responsible party at the appropriate levels of authority

Assumptions and Key Factors - Revenues
Property Taxes
• Type of levies, rate or dollar amount, year of approval, first and last year of collection
  • Assessed valuations
  • Triennial and sexennial updates
  • Delinquent taxes and collections
  • New and expiring levies
  • Current amended certificate
### Assumptions and Key Factors - Revenues

#### Municipal Income Taxes
- Levy rate and period covered
- Estimates from Department of Taxation or RITA
- Income trends
- Unemployment trends
- New businesses

#### Local Government Revenues
- Grants
- Homestead and Rollback
- Fines and Fees
- Interest
- Licenses and Permits
- Rentals
- Miscellaneous

### Assumptions and Key Factors - Expenditures

#### Personal Services
- Bargaining unit contract dates
- Salary schedules
- Staff positions
- Severance pay
- Retirement incentives
- Compilation of salaries (old/new rates)
**Assumptions and Key Factors - Expenditures**

**Fringe Benefits**
- Pension payments(% of salaries) and the method of payment
- Health Care Benefits
- Purchase of service credit
- Workers’ Compensation
- Medicare
- Other benefits

**Assumptions and Key Factors - Expenditures**

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

**Assumptions and Key Factors - Expenditures**

**Capital Outlay**
- Capital Assets to be purchased
- Capital Assets to be acquired
  - Local share of contributed assets
- Capital Assets to be constructed
  - Infrastructure
Assumptions and Key Factors - Expenditures

Debt Service

- Principal and interest on debt payments
- Example: Building debt issues, street truck, police vehicles

Miscellaneous

- Other expenditures that don’t fall into any of the other categories
- Non-recurring items
- Historical spending practices

Other Funds

- Deficits or anticipated deficits
- Fire/Police Levy fund
- Transfers to ORC 5705.13 funds
  - Termination Payments
  - Excess Pay Periods
  - Capital Projects
Reserve Accounts

- Tools available for Capital Expenditures
- Reserve Balance Accounts – S/R or C/P fund (ORC 5705.13)
  - Reserve Balance Account
  - Special Revenue Fund – Termination Benefits/Excess Pay Periods
  - Capital Projects Fund

Reserve Balance Accounts (ORC 5705.13)

- Taxing Authority may establish a reserve balance account for the following:
  - Stabilize the budget
  - Provide for the payment of self-insurance claims
  - Provide for the payment of claims under a retrospective ratings plan for workers’ compensation

Reserve Balance Accounts (ORC 5705.13) cont’d

- Established in the general fund or in one or more special revenue funds for operating purposes
- Can not exceed five percent 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 the preceding year.
**Special Revenue Fund (ORC 5705.13)**

- Accumulates resources for the payment of sick, vacation and compensatory leave upon termination of employment or the retirement of employees.
- Accumulates resources for the payment of salaries during any fiscal year when there is an extra pay period.

**Capital Projects Fund (ORC 5705.13)**

- Accumulates resources for the purchase, construction or improvement of capital assets.
- More than one capital projects fund may be established at any time.

**Capital Projects Fund (ORC 5705.13) cont’d**

- The ordinance or resolution should 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 capital assets the entity intends to acquire, construct or improve with the money.
**Reserve Accounts**

**Capital Projects Fund (ORC 5705.13) cont'd**

- Time limit to obligate resources is 10 years
- If monies are not spent by that time, the fiscal officer is to return all money to the originating fund or funds
- Taxing authority may rescind a capital projects fund with the money returned to the originating fund or funds

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**Why are Forecasts Important?**

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

**Why are Forecasts Important (cont’d)?**

**Long-Term Operating Plan**

- Assists your governing body and public in understanding the financial impact of operational decisions
- Choice of the legislative body
- Can assist in resource allocation
- Transparency and Communication
- Commitment is the current year appropriation measure
Why are Forecasts Important (cont’d)?

Capital Plan

• Allows for project participation with limited resources
• Choice of the legislative body
• Communication tool to your community
• Allows your entity to look into the future to determine additional needs
• Commitment to a project takes place when appropriated and bids are authorized