

Cash Flow Forecasting: Episode 2

Presented by:
Local Government Services

Outline

- If you have not viewed it, my original forecast presentation is available for viewing. We will touch on a few points from it during this presentation.
- Why forecasts are important and what makes a good forecast.
- 2 main parts of a forecast
- Options to presenting and updating the forecast.
- Examples will be discussed throughout the presentation.

Financial Forecasts

What is a financial forecast?

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

What can you afford?

- Do you want to give your employee's raises? Add or eliminate positions? Layoffs? Furlough Days?
- If you offer insurance, how much will your premiums increase? Can you continue to afford this benefit? Change employees share?
- Can you afford a new or currently existing service?
- Can you buy new equipment or make repairs to facilities?
- Do you have reserves for an emergency or downturn in the economy?
- **What are the long-term effects of the decisions that are made today?**

Is this really necessary?

- Why do you need a forecast?
 - Identify programs, activities and service levels that you **CAN** provide compared to what you **WANT** to provide.
 - Identify costs associated with providing services and the funding sources used to provide them.
 - Identify capital needs and establishes a plan for fulfilling those needs.
 - Allows management to set priorities and document plans.
 - Determine the effect of decisions on the community
 - **Are the decisions being made/discussed leading you toward financial difficulties?**
 - **IF you are declared in Fiscal Watch or Fiscal Emergency by the Auditor of State, a five year forecast is required.**

2 Parts of a Forecast

- Operating Plan
- Capital Plan
- Both are necessary as the items in the capital plan affect the operating plan and visa versa.

Operating Plan

- Where do you Start?
 - **ALWAYS start with revenue estimates!** What revenues do you know are going to continue into future years (i.e. taxes) and what revenues may expire (i.e. grants, certain tax levies). New revenues?
 - If these estimates are not truthful and as realistic as possible, then the entire plan is useless.
 - What expenditures **must** you pay for (i.e. debt or lease payments, certain salaries, utilities)? **ITEMS YOU CANNOT CUT!**
 - What expenditures do you really need, but can live without if absolutely necessary (at least for a time)?
 - Wish list

How many jobs do I need?

Total Expenses	\$10,000 Per Month
Job #1 Net Pay	\$4,000 Per Month
Job #2 Net Pay	\$1,000 Per Month
Job #3 Net Pay	\$3,000 per month
Net Effect	(\$2,000) Per Month

Capital Plan

- Where do you Start?
 - Develop a list of projects & purchases - **no limit**
 - Include roads, bridges, buildings, parks and recreation facilities, land purchases, etc.
 - Identify replacement of existing vehicles and equipment, etc.
 - **Set priorities based on.....**
 - How are you going to pay for items in the plan?
 - Are there any alternatives (i.e. shared services, shared grants)

We need more money!

Yearly Revenues	\$100,000
Project #1 Cost	\$25,000
Project #2 Cost	\$65,000
Project #3 Cost	\$80,000
Fund Balance at year-end	(\$70,000)

Another Solution?

	2021	2022	2023
Yearly Revenues	\$100,000	\$100,000	\$100,000
Grant?			\$142,000
Total Revenues	\$100,000	\$100,000	\$242,000
Project # 1	\$25,000		
Project # 2	\$65,000		
Project # 3		\$80,000	
Project # 4			\$266,000
Fund Balance @ 12/31	\$10,000	\$30,000	\$6,000

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Forecasting Revenues

• Property Taxes

- The type of levies, rate or dollar amount, year of approval, first and last year of collection
 - **DO NOT** forget to renew/replace levies.
- Full and effective rates (real and commercial)
- Fixed-amount levies – designed to generate approximately same amount of revenue each year.
- Assessed valuations
- Triennial and sexennial updates
- Delinquent taxes and collections
- New and expiring levies – how much will you generate or lose?
- Current amended certificate
- **Your County Auditor is very important!**

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Things to think about

- New levy....will you vote for it?
- Remember to renew/replace existing levies if necessary.
- Property values can decrease (i.e. 2008).
- County Auditor and Treasurer fees are associated with the collection of property taxes.
- If you increase taxes, will your delinquencies increase? Are you really gaining or losing?

Forecasting Revenues

- Municipal Income Taxes
 - Levy rate and effective period
 - Restricted for specific purposes?
 - Department of Taxation estimates
 - Income trends for the area
 - Unemployment trends for the area
 - New businesses? Any businesses leaving the area?

Forecasting Revenues

Predicting these revenues can be difficult:

- Local government revenues - provided by the State of Ohio. Included as part of the State's biennium budget every two years.
- Sales Tax for Counties – historical information is the best.
- Grants – some years you receive them, others you may not
- Fines and Fees – Dog tag fees. Who is breaking the law?
- Licenses and Permits – what types and how often are they needed/renewed?
- Interest – I have some smaller entities that forecast \$0.
- Rentals
 - For revenues such as rentals, are you charging enough? Are you charging too much?
- Miscellaneous Revenues, such as insurance or BWC reimbursements, contributions or donations. For contributions, is there a binding agreement?
- Outside factors – elimination of the inheritance tax.

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Forecasting Expenditures

- Personal Services
 - Bargaining unit contract dates
 - Salary schedules – step increases, estimated OT
 - Staff positions
 - Severance pay
 - Retirement incentives
 - Computation of salaries (old/new rates)
 - Employee vs. Contract Service – i.e. legal fees.

Forecasting Expenditures

- Fringe Benefits
 - Pension and Medicare payments (% of salaries).
 - Many people forget that when you give raises, these also increase.
 - Health Care Benefits – employee share?
 - Purchase of service credit
 - Workers' compensation premiums/rates/rebates
 - Other benefits

How Much is that Again?

	2021	2022	2023	2024
Salaries	\$200,000	\$210,000	\$220,500	\$231,500
Overtime / New Employees	\$50,000	\$50,000	\$88,500	\$93,000
Retirement – Employer Share	\$35,000	\$36,500	\$43,500	\$45,500
Medicare	\$4,000	\$4,000	\$4,500	\$5,000
Health Care	\$50,000	\$55,000	\$85,000	\$93,500
Dental	\$10,000	\$10,500	\$15,500	\$16,500
Vision	\$10,000	\$10,500	\$15,500	\$16,500
Life	\$5,000	\$5,000	\$7,000	\$7,000
Total	\$364,000	\$381,500	\$480,000	\$508,500

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Forecasting Expenditures

- Contractual Services/Materials & Supplies
 - Significant contractual obligations
 - Renewed yearly vs. when needed.
 - Materials and supplies
 - Utilities – necessity vs. convenience? Negotiated rates?
 - Inflation factor

Forecasting Expenditures

- Capital Outlay items to be purchased or constructed.
- Should align with the capital plan. This is where you determine what you can afford to do and when.
 - Capital Assets to be constructed
 - Infrastructure: In-Kind Contributions?
 - Capital Assets to be acquired
 - Local share of contributed assets?
- If adjustments are necessary, make sure to adjust both plans.

Forecasting Expenditures

- Debt Service
 - Principal and Interest on debt payments.
 - Example: Street truck, fire truck, new/renovated building, water and sewer improvement loans
 - Not only used for current debt payments, but what about future debt payments? Can you afford to take on more debt?

We DID NOT plan for this!

Example: COVID-19

- Unpredictable – was anyone prepared?
- Additional expenditures with no anticipation of reimbursement or, if so, how much.
- CARES Act funding. Some used for prior expenditures, some for current needs.
- Will CARES Act funding continue? If so, for how long and for what may it be used? Now, we have ARP funding.
- Will the expenditures incurred to combat the virus continue? Will costs increase (gas prices)?
- Loss of revenues – Will revenues recover? If they recover, how long could it take?

How to Prepare a Forecast

- Start with historical data. We typically use at least 3 years. Some entities use more.
- What are your assumptions? Make sure you document / know how you are arriving at your estimates. Anticipate questions.
- How much detail do I need? That depends on your entity. I typically do at least at the line item level.
- For the current year (i.e. 2021), I typically have 3 columns – starting forecast, current estimates, and actual data to date.
- How often do you update the forecast? It is your choice. I try to update information for my clients monthly (or as they send me information).
- What if some event happens that changes everything or your governing body decides they would like to do A or B?

Then.....

- You create a new forecast with what you know or what you think could happen, good or bad.
- Write down your thoughts and explain to everyone what has transpired and what you think is going to happen based on what you know.
 - Have as much supporting documentation as possible available in case of questions.
- Present the new potential forecast and seek additional input and accept feedback based on information. What do others know that you may not?
- Run different scenarios and present each explaining that:
 - If A happens, this is the expected result.
 - If B happens, this is the expected result.
 - And so on.

Presenting the forecast

- My preferred method is to gather all of the appropriate decision makers together, pull up the forecast in excel, project the excel spreadsheet for everyone to see (on a wall, separate screen, etc.), and then show everyone the impact of the decisions. If the forecast is set up correctly, it will not only show the impact in the year of implementation, but the future years as well. If they make changes or ask “what if”, the change can be made and everyone can see the effect of each change immediately.
 - I have done this several times. This has most generally been very effective, especially when fund balances project deficits.
- You can print multiple versions of the forecast showing different scenarios and distribute those for discussion.
- If they want just a summary, you can prepare a 1-2 page summary and present it to whomever.
- **MOST IMPORTANT – if you cannot explain the forecast to others and how it works, then it will be useless.**

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Successful Planning

- Be **REALISTIC** and **HONEST** about your situation: good, bad or ugly.
- Be willing to make and explain decisions, even tough ones.
- Maintain all documentation and materials supporting the values and the assumptions
- *****Continue to update both operating and capital plans as additional information becomes available or plans/goals change.**
 - Grant Awards
 - Construction Contracts
 - Debt Issuance
 - Unplanned Emergency Situations

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Contact

Web: OhioAuditor.gov

Email: ContactLGS@ohioauditor.gov

Social: [@OhioAuditor](#)

