Financial Forecasting

OCCMA Conference
July 10, 2019
Our panel

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City of Aumsville

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City of Newberg

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AdastraGov

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Senior Analytics Advisor
Forecast5

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Municipal Services Director
Forecast5
Goals today

- Show advantages and importance of forecasting
- Share tools and ideas that help lead to sustainable government decisions
- Appeal to your creative side
- Demonstrate that cities have a variety of forecasting tools from which to choose
What they think we do
What we actually do
Standard Budget process

- Compare two years of revenues over expenditures
- Prepare and show Budget Committee in LB-XX format
- Go back and forth, changing many documents
- Incorporate hypothetical inflator
Yearly budgeting can be subjective!

City Managers and Councils tend to overestimate revenues and underestimate expenditures while Finance Directors are more likely to be conservative, underestimating revenues and overestimating expenditures.
Budgeting with limited information

- Does not look at sustainability.
- Doesn’t include long term financial planning.
- Only provides budget committee with a limited picture.
- Requires a greater reaction when something unexpected appears.
- Does not provide the information needed to educate staff, council, or community regarding the state of financial affairs in the city or ability to support policy decisions.
- Requires a great deal of back and forth work with policy group or in some cases the policy group will make a decision without a defendable justification.
Financial Policies to be addressed

- Fund Balance, Contingency, and Reserve Policy
- Revenue Policy
- Debt Policy
- Operating Budget Policy
- Capital Improvement Policy
- Purchasing Policy
Key considerations

- Council Goals and long range projects
- Issues to Address through the LRFP (operating and capital) such as:
  - Rising personnel costs, including retirement and health benefits
  - Transportation Infrastructure Funding
  - Spinning off or consolidating services
  - Others?
Interface with other City plans

- Pavement Maintenance Ad Hoc Committee
- Capital Improvement Plans
- Facilities Master Plans
- Equipment Replacement Plans
- Citizens’ Rate Review Process
- Economic Development Plan
- Tourism Plan
- Others?
Scope and Time Horizon

- **Funds considered:**
  - General Fund
  - Admin Support Service Fund
  - Street Fund
  - Building Fund
  - Public Works Funds (rates & SDC funds)
    - Wastewater
    - Water
    - Stormwater

- **Time Horizon – Five-year rolling window, updated quarterly or annually in anticipation of the annual budget process**
Financial Model

- Variety of options to build including in-house excel or software packages
- Flexible to address multiple drivers, run “what if” scenarios
- Graphical illustration of key outputs, including revenue vs expenditures in each fund
Financial Model (continued)

- Focus of revenue projections:
  - Property taxes
  - Franchise revenue
  - State shared revenues
  - Transient lodging taxes
  - Marijuana taxes
  - Gasoline tax and/or transportation fees
  - New revenue streams
Focus of expenditure projections:
- Personnel
- Retirement & health benefits
- Facilities
- Equipment replacement
- Large contracts
Forecast in Action

- Assist • Assists with policy decision
- Real Time • Provides real time estimates
- Outreach • Provides communication/outreach tool
- Living • Creates a living document
Model Demonstration – City of Aumsville

- Data Tab for raw financials
- Various tabs for income/expense assumptions
  - Expenditure & Revenue growth rates
  - Capital Purchases
  - Staffing Changes
- Master Results
  - Displays historical results, plus long-range forecast
  - Drill-down by fund(s) or see overall budget
- Charts tab for presentation graphics
Forecast in Action – Aumsville's Experience

- Council Meetings – live demonstration of fiscal impact on various scenarios
  - Increasing staffing levels
  - Creating new revenue sources
  - Postponing rate increases

- Budget
  - Better examination of future position, rather than single-year "balanced budget"
  - Smaller changes to address future shortfalls, rather than drastic ones for deficits on our doorstep.

- Communication tool
  - Provides visuals for public outreach
  - Demonstrates to staff the impact of their own requests in labor discussions
## Scenario – Adding an FTE

### Before

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<tbody>
<tr>
<td><strong>Police Fund</strong></td>
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<tr>
<td><strong>Actual</strong></td>
<td>$84,458.03</td>
<td>$89,138.12</td>
<td>$104,445.10</td>
<td>$107,198.88</td>
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<td><strong>Projected</strong></td>
<td>$218,575</td>
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<td>$125,917</td>
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How will we pay for it?

<table>
<thead>
<tr>
<th>SUMMARY TABLE</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
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<td>ACTUAL</td>
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<tr>
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<td>$84,458.05</td>
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<td>$104,495.10</td>
<td>$107,198.88</td>
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**BEGINNING CASH & INVESTMENTS**

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**TOTAL REVENUES**

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<th>2016-17</th>
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<tbody>
<tr>
<td></td>
<td>$723,427.86</td>
<td>$796,861.23</td>
<td>$785,206.88</td>
<td>$811,016.25</td>
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**TOTAL EXPENDITURES**

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$727,557.94</td>
<td>$786,827.58</td>
<td>$732,753.10</td>
<td>$779,316.44</td>
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**NET REVENUE**

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
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</thead>
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<tr>
<td></td>
<td>$4,530.50</td>
<td>$15,307</td>
<td>$2,454</td>
<td>$31,700</td>
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**ENDING CASH & INVESTMENTS**

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<td></td>
<td>$79,528</td>
<td>$104,445</td>
<td>$106,899</td>
<td>$138,899</td>
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**DIFFERENCE/ADJUSTMENT**

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<tr>
<td></td>
<td>$9,210</td>
<td>$0</td>
<td>$300</td>
<td>$-</td>
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</table>

**NEW REV/EXP Assumptions**

- Increase PSF by $3? 
  - Nope!
- Increase PSF by $5? 
  - Closer!
How will we pay for it?

Increase PSF by $6

This type of conversation can take place on the spot, leaving all participants better informed and more confident about any final decisions.

Also works for COLA discussions, greater-than-expected benefit expense hikes (PERS), etc.
2019-20 SOURCES OF CASH - Police Fund

- Transfers In: 65.94%
- Charges For Services: 17.29%
- Beginning Cash & Investments: 15.01%
- Miscellaneous: 1.76%
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<tr>
<td>Beginning Fund Balance</td>
<td>3,313,037</td>
<td>3,564,316</td>
<td>3,683,915</td>
<td>4,228,834</td>
<td>3,997,287</td>
<td>2,683,383</td>
<td>1,423,870</td>
<td>16,340</td>
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<tr>
<td>Revenue &amp; Transfers In</td>
<td>14,212,032</td>
<td>15,153,008</td>
<td>11,063,846</td>
<td>11,830,767</td>
<td>11,526,013</td>
<td>12,009,091</td>
<td>12,499,968</td>
<td>13,021,863</td>
</tr>
<tr>
<td>Expenditures &amp; Transfers Out</td>
<td>(13,960,753)</td>
<td>(14,488,490)</td>
<td>(12,363,775)</td>
<td>(12,062,314)</td>
<td>(12,839,917)</td>
<td>(13,268,603)</td>
<td>(13,907,498)</td>
<td>(14,394,975)</td>
</tr>
<tr>
<td>Annual Surplus/(Shortfall) *</td>
<td>251,279</td>
<td>664,518</td>
<td>(1,299,929)</td>
<td>(231,547)</td>
<td>(1,313,904)</td>
<td>(1,259,512)</td>
<td>(1,407,530)</td>
<td>(1,373,112)</td>
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<td>3,997,287</td>
<td>2,683,383</td>
<td>1,423,870</td>
<td>16,340</td>
<td>(1,356,771)</td>
</tr>
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<td>Fund Balance % (Target = 16%)</td>
<td>25.53%</td>
<td>29.19%</td>
<td>19.28%</td>
<td>33.14%</td>
<td>20.90%</td>
<td>10.73%</td>
<td>0.12%</td>
<td>-9.43%</td>
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* Annual Surplus/(Shortfall) Composition

- Public Safety
- Operational surplus/(shortfall)

Annual Surplus/(Shortfall), as stated above

664,518 (1,299,929) (231,547) (1,313,904) (1,259,512) (1,407,530) (1,373,112)
Forecast5 and GL static. Both can be used for reporting.

GL is dynamic, Forecast5 updates per city.

Forecast5 is dynamic, GL is static
Scenario comparisons – City of Sherwood

- Specific situation for FY19: implementation of compensation study
  - Implementation city wide. Current year impact on general fund about $450,000.
  - Current year fund balance could support the implementation due to one time funds from sale of some property BUT what would happen in later years?

- Solution: create multiple scenarios and model them side by side
Scenario comparisons – City of Sherwood continued

General Fund Ending Fund Balance Five Year Projections - All Scenarios

- Proposed budget scenario
- Scenario A - 2 FTE
- Scenario B - 3 FTE
- Scenario C - 4.5 FTE
- Scenario D - 5.5 cuts
- 20%
Pension & OPEB Funding Strategies

1. Long Term Planning
   a. Development of Unfunded Liabilities
   b. Development of Annual Pension Costs

2. Explore Funding Options
   a. Re-Amortizing
   b. Additional Payments

3. Budget for Expected Changes – Without Waiting for Your Valuations
   a. Investment Returns
   b. Policy Changes

4. Understand & Budget for the Impact of Bargaining Decisions
GovInvest – Pension Analysis

The graph shows the pension liability and how it's being funded over time.
Creating a Centralized Costing Workspace

- Single source of truth
- Same set of assumptions
- Consistent data & calculations
- Tracking previous proposals
- Time-stamping the negotiation process to show progress
Questions?
# Contact information

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<tr>
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