

# Financial Forecasting Models

## Short-range Budgeting No Longer an Option

The once-common practice of developing single-year operating budgets for local government funds is quickly becoming insufficient. Rapidly rising costs, combined with stagnant or declining revenues, can result in unforeseen budget shortfalls, which may require undesirable and sudden changes to service offerings, staffing levels or tax rates.

Extending the financial planning horizon to 2, 5 or 10 years can substantially improve a government's ability to proactively manage revenue and expenditure adjustments, rather than simply react to changes that are happening in a more short-term horizon.

## A Powerful Tool for Improved Fiscal Management

One of the most beneficial management tools that local governments could utilize is a comprehensive forecasting model. A properly developed financial model provides a longer-term perspective of revenues and expenditures, based on the best information available. Armed with this information, managers and policy makers can anticipate the timing of budget constraints or excess and make plans that conform to expected financial conditions. By changing key assumptions, users can easily conduct "what if" analysis or test the impact of multiple scenarios within a single fund or throughout the entire municipal budget.

A financial model integrates often disparate information into a single spreadsheet file. By linking together budgets, debt service schedules, capital improvement plans,

staffing schedules, historical financial information, equipment replacement schedules, revenue forecasts and other documents and data, the municipality gains a significantly greater understanding of organization-wide financial conditions.

Financial models can be used as a single source of financial information for a variety of purposes, including:

- Tax rate analysis
- Debt management
- Labor negotiations
- Bond rating reviews
- Budgeting
- Policy impacts
- Feasibility analysis
- Communicating with policy makers

Additionally, financial models can be expanded to include a cash flow forecast, personnel cost calculator or other fiscal management functions.

We work closely with our clients to develop the appropriate scope and level of detail required in each financial model. In the end, clients are provided a spreadsheet model that can be used by in-house staff and updated as needed.

## Contact Us

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