

# Long Term Financial Planning

# Impact of Current Year Budget

- Current year budget effects more than just current year. It could have a long term effect on the fiscal stability of the County.
  - If current budget = estimated revenue: sustainable and cash flow neutral. Cash balance will remain at current level.
  - If current budget < estimated revenue: sustainable and cash flow positive. Cash balance will increase.
    - Are all services being provided need to/want to provide?
  - If current budget > estimated revenue: not sustainable and cash flow negative. Cash balance will decrease and at some point cuts will have to be made to budgets if more revenue can not be obtained.
- Does your County have a long term financial plan and strategy and does this year's budget fit into that plan?

# Long Term Financial Planning

- Long Term Financial Planning will allow County to lay out service objectives and create a financial road map by which it will fund the implementation of those objectives and policies
  - Key to meet the complex challenges and opportunities of local government
- Long Term Financial Planning is recommended by GFOA (Government Finance Officers Association)
  - GFOA recommends long term financial planning to help identify emerging problems & opportunities and also a chance to discuss policies.
  - GFOA's Financing the Future, Long-Term Financial Planning for Local Governments states:
    - "In order to make sound, enlightened and forward thinking financial decisions, additional analysis beyond the budget needs to be performed."
    - "Done right, long-term financial planning is not just a technical tool to identify problems and opportunities, it is a chance to discuss policy, where the community wants to go, what financial policies should be in place, and build consensus for those decisions."
    - "After a long-term plan has been created and disseminated, after it has been discussed and approved, other financial and budgeting decisions should be much easier and should flow naturally from the plan."

# What Should a Long Term Financial Plan Include?

- Financial History
- Current year budget
- Revenue projections
- Expenditure projections
- Analytical and Comparative Data
- Assumptions

# Financial History

- Often, the best predictor of future performance is past performance.
- Recent years revenues, expenditures, and budgets of the primary funds helps provide visual to recognize trends.
- Financial History should have primary funds.
- Should also have revenues by sources, expenditures by department, and budgets.

# Current Year Budget

- Allows the County to recognize any immediately needed corrections and provides a transition between the historical data and projected performance.
- Current year budget includes projected revenues and actual expenditures based on the adopted budget.

# Revenue Projections

- Provides anticipated revenue amounts by fund based on:
  - Historical performance
  - Revenue options under the control of the County and policy decisions based on those options
    - For example: income tax, property tax allocation, service fees, utility fees, EMS fees.
  - Property tax revenue projections should account for circuit breaker loss and annual growth quotient.

# Expenditure Projections

- Provides anticipated expenditure amounts based loosely on historical performance and heavily on expenditure policy decisions.
  - If County follows the same budget formulation process and is continuing the current services at current levels, then the amount of expenditure in relation to budget, or unspent appropriation is often very similar to previous years.
  - Counties have large amount of control over future expenditures.
    - Therefore, projections are predominately dependent upon policy decisions regarding expenditures, current and future levels of service, current and upcoming repairs and maintenance, and current and upcoming capital needs.
- GFOA Financing the Future book states:
  - “Financial planning can be used to create assumed limitations on expenditure growth that are consistent with the organization’s projected resource availability over the long term. Budget request must then be made within the parameters established by the assumptions.”

# Analytical and Comparative Data

- Provides gauge on relative impact on taxpayers as well as determine how the impact of fiscal policies stack up to similar governments.
  - Could include: current and future tax impacts, tax rate comparisons to other counties, assessed value trends, and taxing district rate break down.

# Assumptions

- Assumptions are behind every projected number in a long term financial plan.
- Some assumptions are economic in nature and outside the control of the county.
- Other assumptions are based on policy assumptions and reflect policy decisions of the county.

# Formulating and Implementing Long Term Financial Planning

- GFOA's Financing the Future considers 4 major phases:
  1. Mobilization
  2. Analysis
  3. Decision
  4. Execution

# Mobilization

- County prepares to undertake the planning including:
  - Gathering data
  - Gathering citizen expectations
  - Building consensus among elected officials for the planning process

# Analysis

- Choose a projection period
  - 3 years, 5 years, 7 years?
  - Length limited to stability and predictability of revenue sources.
- Determine current fiscal environment
- Determine revenue and expenditure projections
- Analyze results of above steps

# Decision Phase

- County must use information gathered and analyzed to decide how it will respond to the analysis.
- Strategies and policies are agreed upon to maintain fiscal health and balance.
- Project prioritization for capital planning and budgeting purposes.

# Execution Phase

- Final Phase
- Take actions necessary to implement the financial plan including incorporating into the budget.
- May also include formal policy statements, resolutions and or ordinances.

# Benefits

- Creates a financial roadmap for the County
- Has potential to identify future imbalances
- Demonstrates County's decision to sound financial management.
- Can provide County with project prioritization for capital planning and budgeting process.
- Can assist in providing funding solutions for capital expenditures.

## Reference

Kavanagh, Shane C. *Financing the Future, Long-Term Financial Planning for Local Governments*. Chicago, IL: Government Finance Officers Association, 2007.

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