

560 Budgeting and Financial Forecasting

1.0 Purpose

The William Shore Metropolitan Park District (District) is faced with challenges similar to other urban local governments throughout the Northwest. The task is to continue to provide a high level of services with limited resources. While effort is made to contain costs and increase efficient use of resources the District is faced with tax revenue limitations, rising labor costs, general supply increases and increased market competition for its user fees.

The District financial planning process assesses long-term financial implications of current and proposed policies, programs, and assumptions. The District then develops strategies to achieve the goals. A key component in determining future options, potential problems, and opportunities is the forecast of revenues and expenditures. Revenue and expenditure forecasting can provide the following benefits:

- Provides an understanding of potential funding available;
- Evaluates financial risk;
- Assesses the likelihood that services can be sustained;
- Assesses the level at which capital investments can be made;
- Identifies future commitments and resource demands; and
- Identifies the key variables that cause change in the level of revenue.

The District uses a Five-Year Financial Forecast for its financial forecasting and represents a continuing effort to analyze the District's long-term fiscal condition based upon a reasonable set of economic and operational assumptions. It is an important management tool used in identifying fiscal trends and issues that must be addressed early in order to assure continued financial success. These forecasts are not static documents; in order to be effective the forecast must be monitored to allow for corrections to assumptions as they occur.

To improve future forecasting, the variances between previous forecasts and actual amounts should be analyzed. Variance analysis should identify the factors that influence revenue collections, expenditure levels, and forecast assumptions. The forecasts are not a prediction of what will occur. It is a snapshot in time and an approximate view of what could occur in the future if all of the assumptions are realized.

2.0 Predicting Long Term Needs

The five year financial forecasting plan is a rolling plan that is continually updated as often as new information and assumptions change. It is used to help formulate a yearly budget with an eye to the future needs of the District. Forecasting is the combined use of:

1. Past Financial Performances
2. Expert Knowledge and Experience
3. Economic Trends both local, state and national

The five-year financial projections do not constitute a multi-year fiscal plan, but they are the first and major building block in preparing long-term budget plans. Several different techniques are used to generate the projections. The first step in this process involved an attempt to forecast a "constant services" level of expenditures using the current year operating budget as the base year. The projections assume that revenues and expenditures are partially influenced by inflation, legislation, along with supply and demand. After developing the projections based on "how much will it cost us to continue doing what we are doing now?" estimates of planned capital development and their impact on the operating budget were added into the projections.

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2.1 Revenue Projections

Revenue estimates are generated by determining what was needed in any given year to provide the quality of services and programs projected. Property tax revenues are a significant percentage of the District's operating revenue. The amounts projected reflect the activities of the Park District limit in tax revenues and the limitation of levy increase ability.

2.2 Expenditure Projections

The District is committed to providing all district services and operations in a responsive, efficient, and cost-effective manner while retaining the high level of services it provides. Capital expenditures are prioritized and evaluated based upon their affect upon operational costs. Expenditure guidelines include increases based on CPI projections and the tax levy limits. The District continues to work with the goal that operating expenditures will not exceed projected revenues. Exceptions to this goal are:

- Planned reduction in fund balance reserves.
- Portion of the fund balance reserves may be used for capital repair and replacement.
- Cover unanticipated drops in revenue or increases in costs.

2.3 Fund Balance Projections

The District continues to work toward the goal of providing a minimum fund balance reserve in the General Fund of approximately three months of operating expenditures. Funds will continue to be accumulated for other capital improvements to enhance future revenue production.

Fund balance is the cumulative difference of all revenues and expenditures from the fund's creation. It is the difference between fund assets and fund liabilities. Fund balance does not refer to cash balance, nor is it the difference between revenues and expenditures. The undesignated portion represents expendable available financial resources that are used to meet contingencies and working capital requirements. An undesignated fund balance is important for the maintenance of a stable tax rate and revenue structure, and for the orderly provision of services to residents.

3.0 Summary

Of critical importance in attempting to maintain fiscal stability is having the growth in revenues match or exceed the growth in expenditures. The impact of inflation in local government costs is often hard to anticipate. It is necessary to accept the fact that uncertainty exists and hedge against it through the development and use of adequate levels of fund balance.

This information helps ensure continuity and improves our ability to develop budget strategies, plan a more predictable tax structure, as well as provide stable services and infrastructure. Avoiding poorly timed projects represents another financial advantage. The validity of the projections for the later years of the forecast must be considered, as the uncertainty of the forecast increases significantly with the length of the period predicted. The environment that affects the Park District's financial situation changes continually and several factors might influence the situation.