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Sponsored By:



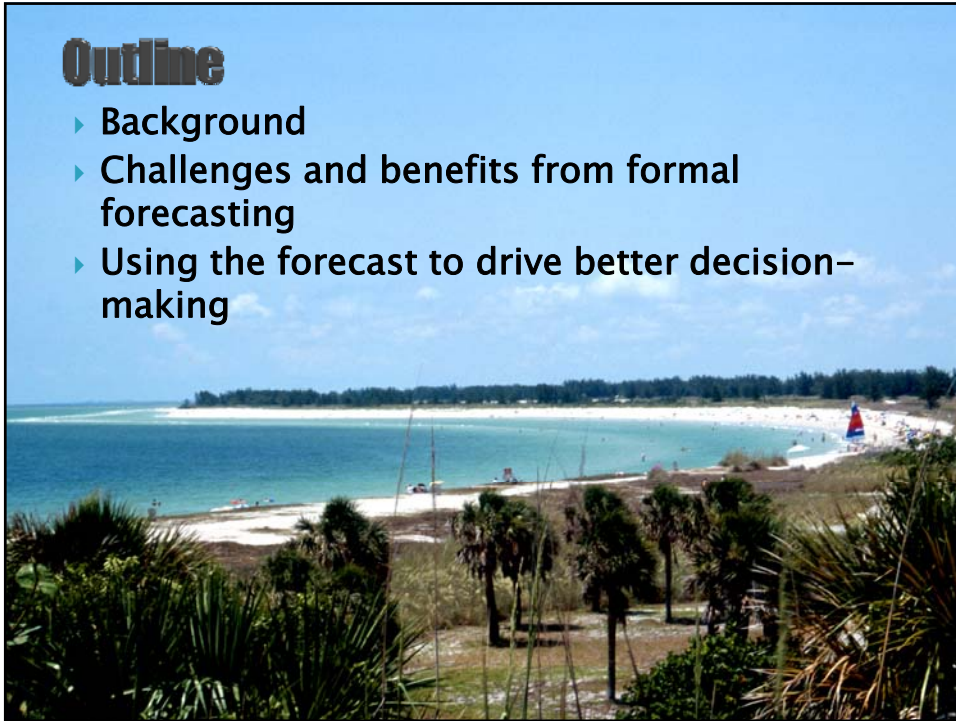
**Polishing Your Crystal Ball:**  
**The Power of Forecasts**



Pinellas County, Florida

## Outline

- ▶ Background
- ▶ Challenges and benefits from formal forecasting
- ▶ Using the forecast to drive better decision-making



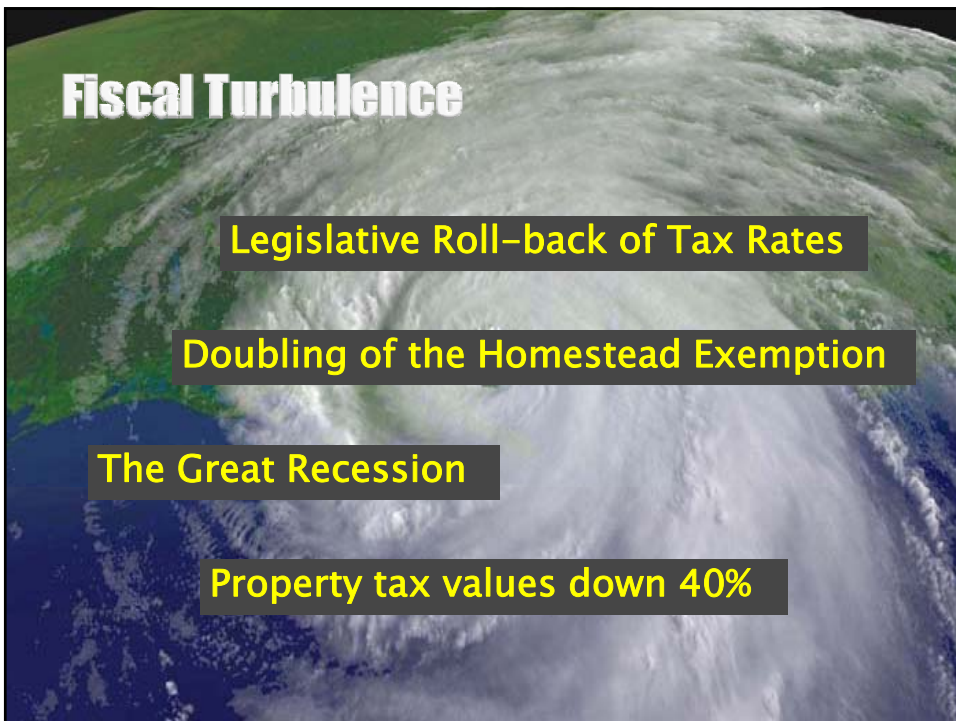
## Fiscal Turbulence

Legislative Roll-back of Tax Rates

Doubling of the Homestead Exemption

The Great Recession

Property tax values down 40%





## Informal Forecasting

- Focus on balancing next year's budget
- Centered around the General Fund
- Limited understanding
- No transparency
- Lack of accountability

## New Direction

- ▶ Formal forecast document
- ▶ Forecast 10 key funds
- ▶ 10 year horizon
- ▶ Provide detailed pro-formas



## Review of Other Forecast Doc's

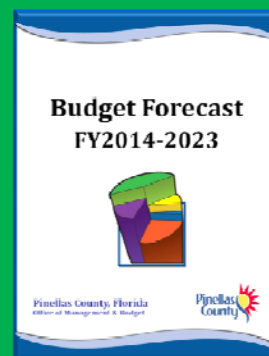
- ▶ Scarce
- ▶ Internal vs. External documents



- ▶ Time horizon of five years or less
- ▶ Spreadsheets with little narrative
- ▶ Lack of detailed assumptions
- ▶ Not user-friendly

## Pinellas County's Forecast Doc

- ▶ Economic overview
  - National, State, Local
- ▶ Key assumptions
  - Revenues & expenditures
- ▶ Fund Forecast narratives
  - User friendly, 3-4 pages
- ▶ Pro-formas
  - One pagers; graphs



<http://www.pinellascounty.org/budget/14budget/forecast.htm>



## Challenges and Benefits of Formal Forecasting



### Challenge: New Paradigm



- ▶ Multi-year vs. One-year
- ▶ Holistic financial picture
- ▶ Understand how today's decisions impact the future

## **Challenge: Educational Process**

- ▶ Expect that people “won’t get it”
- ▶ Understanding takes time
- ▶ Communicate differently



## **Challenge: Scrutiny**



- ▶ Expect to be challenged!
- ▶ Easier to question the numbers than make difficult policy decisions
- ▶ Robust explanation of assumptions
- ▶ Cite sources of information

## **Challenge: Discipline**

- ▶ Lack of flexibility
- ▶ Accuracy is key
- ▶ Run test scenarios
- ▶ Avoid making continual changes



## **Benefit: Radar Image**



- ▶ Ten-year horizon
- ▶ Address issues well in advance
- ▶ What-if scenarios
- ▶ Model potential solutions
- ▶ Identify threats to the forecast

## **Benefit: Transparency**

- Window into the future
- Increase in trust and credibility
- Enhanced understanding by stakeholders



## **Benefit: Communications**

- ▶ Insights into the future of the organization
- ▶ May become “must read” material by employees
- ▶ Understood by citizens and stakeholders





## **Benefit: Consensus**

- Common platform for decision-making
- Helps frame policy decisions



## **Benefit: Positive Perception**



- ▶ Example of government running more like a business
- ▶ Staff perceived as smarter and more professional



### Better Decision-Making

- ▶ Assess sustainability of key funds
  - Compare recurring revenues to expenditures
    - Identify actions needed to bring funds into structural balance
    - O&M impacts from CIP projects
    - Debt service capacity
    - Sun setting of revenue sources and commitments



## Better Decision-Making

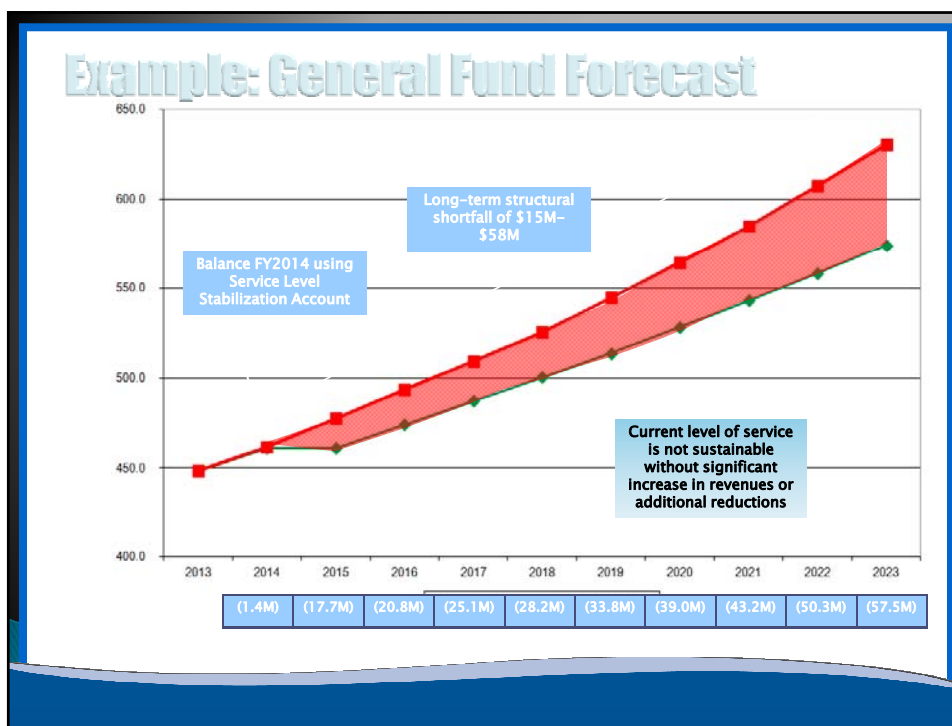
- ▶ Powerful tool to understand consequences of policy decisions beyond a one-year budget solution
- Assess potential impacts of:
  - New programs
  - Service level enhancements
  - Reduction in service levels
  - Elimination of programs
  - New revenue sources



## Strategy

- ▶ Formal forecasting helps avoid political chicanery
- ▶ Enables quality budget strategies

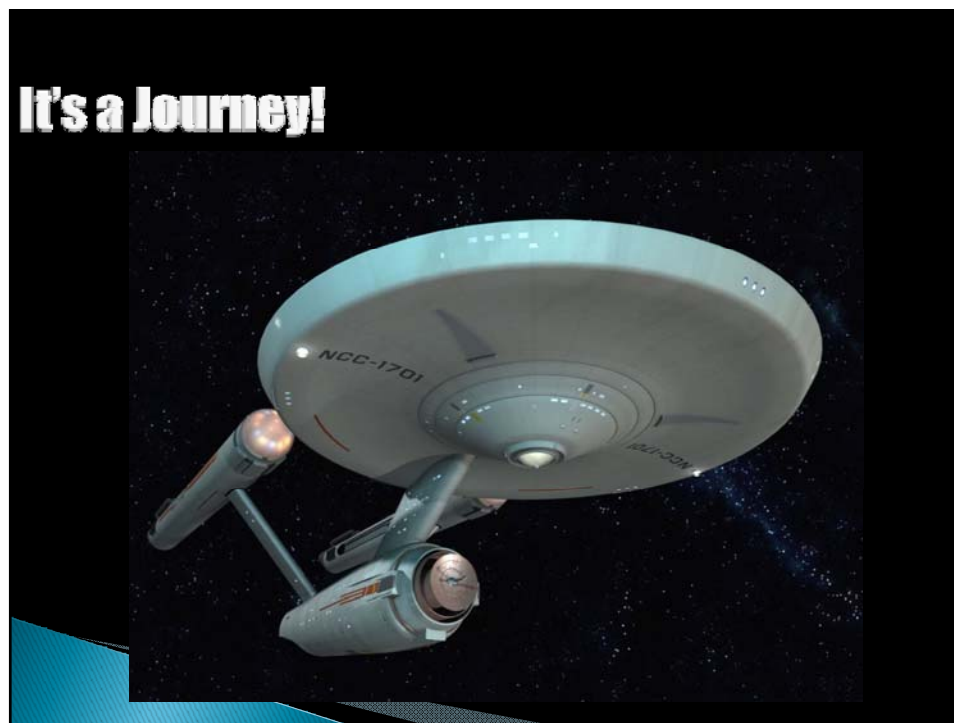
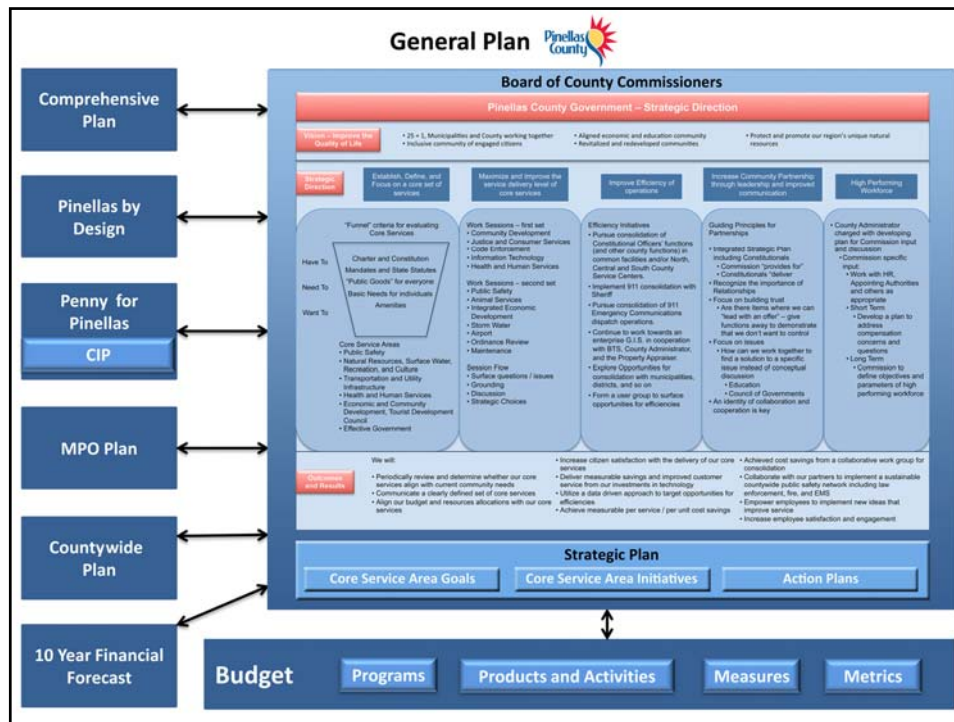




### Example: Budget Strategy

- Allows for more holistic view of reductions
  - FY2014 focus on program adjustments
    - Helps stabilize the organization
  - FY2015 focus on operational efficiencies
    - Longer time frame to implement opportunities
- Evaluate Compensation Options
- PILOT or Return on Equity from Enterprise Funds
- Increase millage rate







## Taking the **F** out of Infernal Audit

Ultimate Monday Morning Quarterbacks

Ulterior Motives?

Value to the Organization

Uncertainty about the Rules

Too Picky

Words Matter