

FORECASTING

PURPOSE

To assess the range of choices available to budget decision makers when determining how to allocate resources, this policy establishes guidelines for creating projections of revenues and expenditures as part of the annual budget process and multiyear fiscal planning. By presenting the future implications of current budget scenarios, forecasting helps local officials to make strategic plans for lasting fiscal sustainability and future investment.

APPLICABILITY AND SCOPE

Applies to:	<ul style="list-style-type: none">▪ Town Administrator, Town Accountant and Principal Assessor job duties▪ Board of Selectmen, Financial Advisory Committee, and Capital Projects Committee in their budget analysis and decision-making responsibilities
Scope:	<ul style="list-style-type: none">▪ Creation, revision, and year-to-year conversion of a multiyear forecast of revenues and expenditures as part of the annual budget process▪ Guidelines for formulating the assumptions that form the basis for forecast projections

POLICY

To determine the Town's operating capacity for future fiscal years, the Town Accountant, under the Town Administrator's direction, will annually create a detailed forecast with five-year projections of revenues and expenditures. The Town Administrator, Board of Selectmen, Financial Advisory Committee (FAC), and Capital Projects Committee will use the forecast to support their decision making for the upcoming year's operating and capital budgets and for the Town's multiyear capital improvement plan.

The Town Accountant will create conservative forecasts. In basic terms, this entails reviewing historical revenue and expenditure trends, anticipating factors that may impact those trends going forward, analytically developing assumptions, and then formulating projections that, within a reasonable percentage range, underestimate revenues and overestimate expenditures. Overly optimistic estimates can increase the risk of a revenue deficit, which would necessitate a reduction to the subsequent year's revenue to offset it. On the other hand, inordinately underestimated projections result in excess revenue that is unavailable to benefit the public in the same year as accrued and can be perceived as overtaxation.

Early in the annual budget process, the Town Administrator will present the initial forecast to a joint meeting of Board of Selectmen and FAC. Throughout the budget process, these boards will use the forecast to inform their decision making. In addition, the Town Accountant will promptly revise the forecast projections whenever circumstances change and provide updates to the Town Administrator, who will subsequently share them with the FAC, Capital Projects Committee, and Board of Selectmen.

Before creating the initial forecast for a new fiscal year budget process, the Town Administrator and Town Accountant will review the performance accuracy of prior-year forecasts and any evolving factors in the underlying assumptions to consider how the new forecast's projections may need to be adjusted. Factors to consider include changes in laws, regulations, inflation rate, interest rate, Town goals, and policy decisions.

A. Guidelines for Revenue Assumptions

The following principles shall guide the formulation of revenue assumptions:

- Projections of the property tax levy will be confined by the limits of Proposition 2½ (absent any overrides) and take into consideration consensus decisions regarding the Town's level of excess levy capacity.
- New growth projections will take into account the Town's three-, five- and 10-year averages by property class and advice from the Principal Assessor.
- The Town Administrator will annually review the levy limit's relationship to the levy ceiling (which is 2.5 percent of the Town's real and personal property total value) to identify potential override capacity and to guard against the levy limit approaching or hitting the ceiling, which would impact future levy growth.
- Local aid projections will correspond with economic cycles, while Chapter 70 educational aid will reflect trends in school choice, enrollments, tuition, and charter assessments.
- Estimates for local receipts (e.g., motor vehicle excise, inspection fees, etc.) will not exceed 90 percent of the prior year's actual collections without firm evidence that higher revenues are achievable.
- One-time revenues will not be used in the projections to fund ongoing or recurring operating expenditures.
- Revenues from grant programs will be reviewed annually to determine their sustainability.
- The Town will build and maintain reserves in compliance with its Financial Reserves policy.

B. Guidelines for Expenditure Assumptions

Annually, the Town Administrator will direct the Town Accountant to apply a particular approach for forecasting expenditures, either maintenance (level service), level funded, or one that adjusts expenditures by specified increase or decrease percentages (either across the board or by department). A maintenance budget projects the costs needed to maintain the current staffing level and mix of services into the future. A level-funded budget appropriates the same amount of money to each municipal department as in the prior year and is tantamount to a budget cut because inflation in mandated costs and other fixed expenses still must be covered.

In addition, the following principles shall guide the formulation of expenditure assumptions:

- The Town's current level of services will provide the baseline for projections.
- Historical trends in the growth of operating expenses and employee benefits will prevail.
- The Town will annually meet or exceed the state's net school spending requirements.
- Trends in enrollments, school choice, tuition, and charter assessments will be factored.
- Only currently known increases in employee compensation plans will be factored into the projections, leaving any potential, future cost-of-living adjustments to be calculated independently of the forecast.
- The Town will pay its annual pension contributions and make appropriations to amortize its other postemployment benefits liability.
- The Town will pay all existing debt service obligations and adhere to its Capital Planning and Debt Management policies.

REFERENCES

[M.G.L. c. 44, §§ 20, 53A, 53A½, 63, 63A](#)

Edgartown policies on Annual Budget Process, Capital Planning, Compensation Management, Debt Management, and Financial Management Team, Financial Reserves, Grants Management, and Indirect Cost Allocation

Division of Local Services Best Practice: [*Revenue and Expenditure Forecasting*](#)

EFFECTIVE DATE

This policy was adopted on May 17th 2021.