Moving to Multi-Year Budgeting
The Time is Now

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As a result of the “Great Recession;” drop off of ARRA funds; government pension viability concerns; and municipal debt default panics, citizens, politicians, rating agencies, GFOA and GASB are all looking to local governments to extend their projection outlooks over multiple years so as to conservatively ensure that funding will exist to support their commitments.
GASB Chimes in on Financial Projections

Preliminary Views of the Governmental Accounting Standards Board on major issues related to Economic Condition Reporting: Financial Projections

The GASB requests comments by March 16, 2012.
Rating Agencies Reward Multi-year Budgeting

- “Sound Financial Position: Reserve levels and financial flexibility remain sound, supported by prudent fiscal policies and multi-year planning.”
- “Overall, the use of multi-year forecasting tools and frequent budgetary monitoring are indicative of the County’s careful financial management practices, and Moody’s expects continued financial stability despite current economic uncertainties.”
- “Financial Management Assessment: Strong”
  “Use of a five-year budget plan, adopted by the BOCS annually and integrated with the CIP.”
Practice 9.2

**Prepare Revenue Projections**

**Examples:**
City of Tempe, AZ: Revenue Forecast
City of Portland, OR: General Fund Resource Forecast

**Practice:**
A government should prepare multi-year projections of revenues and other resources.

**Rationale:**
Projection of revenues and other resources is critical in order to understand the level of funding available for services and capital acquisition. Projections for future budget periods help determine the likelihood that services can be sustained and highlight future financial issues to be addressed. Preparing revenue projections also enhances a government’s understanding of revenue sensitivity to changes in assumptions and to controllable factors such as changes to tax rates or fees.

**Outputs:**
Revenue projections developed for financial planning purposes should extend over a period of at least three years into the future or longer if necessary to evaluate how revenues may change over time, to isolate non-recurring revenues, or to understand the impact of revenues when fully phased in. A government may produce a single revenue projection or projections under alternative scenarios; alternatively, the forecast may be stated in terms of a range of values. Major assumptions should be prominently identified. Projections should be available to participants in the budget process before budgetary decisions are made. One or more updated projections should be available during the budget period to avoid unintended deviation from balanced-budget requirements.

**Notes:**
Particular attention should be paid to major revenue sources. Trend analysis, econometric modeling, and other methods should be used, as appropriate, depending on the type of revenue being projected, the availability of data, and the time frame covered by the projections. Other factors to evaluate are the variance between the previous period’s actual and forecasted revenues and any...
Excellent Revenue Forecasting and Analysis Course Available from GFOA

Revenue Forecasting and Analysis

Group-live Course
Prerequisites: Budget Analyst Training Academy; Students should have a working knowledge of basic Microsoft Excel techniques.
Course Level: Intermediate
CPE Credits: 16
Time: 2 Days, 9:00 am – 5:00 pm (Pacific) (both days)

View current GFOA training schedule

Who Will Benefit

This session is designed for budget analysts and other finance staff who are involved in preparing revenue forecasts. Special focus will be on forecasting during challenging fiscal times.
“I am for a government rigorously frugal and simple.”

Thomas Jefferson

"Beer is living proof that God loves us and wants us to be happy."

Benjamin Franklin
What We Will Cover

- What IS Multi-Year Budgeting?
- Why Change?
- How Do I Change?
The Budget is More than Spending Money

The Budget

Revenue

Expenditures
Visualizing the Difference

Single-Year Budget

1 2 3 4 5

Biennial Budget

1 3 5

5-Year Budget

1 2 3 4 5
Ok, so nice little boxes but ....

Why should my locality change?
The Budget Should Link Goals/Plans and Resources

- **Strategic Plan**: 5 yrs
- **Comprehensive Plan**: 10 yrs
- **Capital Improvement Plan**: 6 yrs
- **Budget**: 5 yrs
Let’s Build a Library

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Issue Debt for Construction</td>
<td>Debt: $20 M</td>
</tr>
<tr>
<td>2</td>
<td>Interest expense – 6 months</td>
<td>$30,000</td>
</tr>
<tr>
<td>3</td>
<td>Principle and Interest expense (P&amp;I)</td>
<td>$1,060,000</td>
</tr>
<tr>
<td>4</td>
<td>Library Opens 6-mos operating expenses</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>5</td>
<td>Full year Op. Expenses Plus P&amp;I</td>
<td>$3,060,000</td>
</tr>
<tr>
<td>6</td>
<td>Years 4-6 – Full year Op. Expenses + Inflation + P&amp;I</td>
<td>$3,120,000</td>
</tr>
</tbody>
</table>
Understanding What Can be Afforded

Five Year Planning provides:

- Transparency
  - Plan revenue (tax bills) and expenditures 5 years in advance
  - Families, businesses and agencies have more predictability

- Accountability
  - Plan for both infrastructure and operating costs

- Flexibility
  - Can adjust to changing circumstances
  - Demonstrated during Great Recession

- Visibility

- Discipline
  - Always start with savings
  - Add only what can be afforded for at least five years
Five Year Plan - Strategic Reasons

- Translates vision into reality – Creates a map to achievement
- Implements BOCS & Community Strategic Goals and priorities
- Supports economic development activities
- Implements Comprehensive Plan levels of service
  - Roads
  - Police per capita
  - Fire & Rescue service response
  - Libraries and Parks
- Allows for the planning of initiatives over many years
  - Capital projects and operational support
  - Staffing plans
Five Year Plan - Financial Reasons

- County Code Requirement - Principles of Sound Financial Management
- Directive by the BOCS for a balanced Five Year Plan
- Maintains AAA Bond Ratings
- County/School revenue sharing agreement
  - It gives the Schools the visibility to also plan forward
- Initiatives in any one budget year must be affordable for five years
- Avoids use of one-time money to fund ongoing costs
Planning for Capital Investments

**Five Year Budgets:**

- Allow for planning and funding of new infrastructure to support population growth and strategic goals
- Allow for planning and funding of new technology that promote efficiency and effectiveness
- Require planning and funding of operating support for infrastructure and technology
- Require planning and funding of debt service payments
- Require use of multiple funding sources
- Require use of cash to capital for smaller, one time projects
FY 2013-2017 Five Year Plan Summary

- Average tax bills increase by inflation
  - 3.4% in FY 13
  - 4.0% annually in FY 14-17

- Implement BOCS directives on new infrastructure
  - Capital Improvement Program - complete 2006 bond projects
    - Authorization deadline FY 16
  - Technology Improvement Plan (TIP)
  - Schools use 69% of CIP funding

- Support operating costs of new infrastructure and maintain safe communities
  - Police and fire staffing plans
  - Operating costs for new libraries, new and expanded parks, trails, technology

- Maintain policy of competitive compensation
Balancing Our Desires with Our Willingness to Pay

- Human Services
- Public Safety
- Schools
- Transportation
- Parks
- Libraries
- EMS Fee
- Personal Property Tax
- Sales Tax
- BPOL
- Real Estate Tax
In summary, our budget is intended to focus on the key questions of what we do and why we do it, rather than simply how much does it cost and how will we pay for it.
Ok, I’m convinced ……

How do we change, and on what should we focus?
Multi-Year Budgeting, October, 2012
How comfortable would you be driving your car with this level of limited visibility?
Multi-Year Forecasting Can Help Plan for Issues You Might Not Expect
Single Year Forecasting vs. 5-Year Forecasting

Visibility

1 2 3 4 5
So What Does a Broken Ankle Have to do with the Budgeting process?

“Four”casting
Three of the Biggest Challenges to Adopting Multi-Year Budgeting

- Proyectar con precisión de salida-año ingresos
- Ακρίβεια προβολής των ετησίων εσόδων
- Accurately Forecasting Out-Year Revenues
Anecdotal evidence suggests for short/medium term...(1-2 years)

- 1% is a very good forecast
- between 1-3% it’s an adequate forecast
- between 3-5% is on the border of acceptable
Revenues Forecasting Components

- Develop a Tax Policy
- Maintain Knowledge of U.S, State, and Local Trends
- Bring in Knowledgeable Partners
- Create a Model for Developing Projections
- Monitor Trends
Identify The Revenue Sources

Real Estate, Personal Property, and Sales Taxes Comprise Over 88% of Prince William County Revenue
<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Reported Date</th>
<th>Value</th>
<th>Change 1 Year Ago</th>
<th>Change 2 Year Ago</th>
<th>Change 3 Year Ago</th>
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<td>26-Mar</td>
<td>Housing Starts (000s)</td>
<td>February</td>
<td>575</td>
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<td>26-Mar</td>
<td>Building Permits (000s)</td>
<td>February</td>
<td>612</td>
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<tr>
<td>26-Mar</td>
<td>Existing Home Sales (m)</td>
<td>February</td>
<td>5.02</td>
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<tr>
<td>26-Mar</td>
<td>New Home Sales (000s)</td>
<td>February</td>
<td>308</td>
<td></td>
<td></td>
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<tr>
<td>6-Apr</td>
<td>Construction Spending</td>
<td>February</td>
<td>-1.4%</td>
<td></td>
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<tr>
<td>24-Mar</td>
<td>Mortgage Loan Index (4-wk, moving avg increase over prev.)</td>
<td>19-Mar</td>
<td>1.9%</td>
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<tr>
<td>24-Mar</td>
<td>Purchase Loan Index</td>
<td>19-Mar</td>
<td>3.6%</td>
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<tr>
<td>24-Mar</td>
<td>Refinance Loan Index</td>
<td>19-Mar</td>
<td>1.2%</td>
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<td>26-Mar</td>
<td>Consumer Credit ($b)</td>
<td>January</td>
<td>$5.00</td>
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<td>$4.60</td>
<td>-208.7%</td>
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<td>2-Mar</td>
<td>Retail Sales</td>
<td>February</td>
<td>0.3%</td>
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<tr>
<td>2-Mar</td>
<td>Retail Sales ex-auto</td>
<td>February</td>
<td>0.8%</td>
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<tr>
<td>9-Mar</td>
<td>Auto Sales-Domestic (m)</td>
<td>March</td>
<td>4.3</td>
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<tr>
<td>9-Mar</td>
<td>Truck Sales--Domestic (m)</td>
<td>March</td>
<td>4.8</td>
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<tr>
<td>9-Mar</td>
<td>All Light Vehicle Sales Including Foreign (m)</td>
<td>March</td>
<td>11.8</td>
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<td>9-Mar</td>
<td>Domestic Light Vehicle Sales % of All Sales Including Foreign</td>
<td>March</td>
<td>77.1%</td>
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<td>11-Jan</td>
<td>Trade Balance ($b)</td>
<td>January</td>
<td>-37.30</td>
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<td>-39.90</td>
<td>-6.5%</td>
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<td>13-Jan</td>
<td>Treasury Budget ($b)</td>
<td>February</td>
<td>-220.90</td>
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<td>-42.60</td>
<td>418.5%</td>
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<tr>
<td>29-Oct</td>
<td>GDP-Adv</td>
<td>Q4 2009</td>
<td>5.6%</td>
<td></td>
<td>2.2%</td>
<td>3.4%</td>
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<tr>
<td>6-Mar</td>
<td>Import Prices ex-oil</td>
<td>February</td>
<td>0.2%</td>
<td></td>
<td>0.4%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>6-Mar</td>
<td>Import Prices with oil</td>
<td>February</td>
<td>-0.3%</td>
<td></td>
<td>1.3%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>6-Mar</td>
<td>Export Prices ex-agriculture</td>
<td>February</td>
<td>-0.2%</td>
<td></td>
<td>0.7%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>6-Mar</td>
<td>Export Prices with agricultulture</td>
<td>February</td>
<td>-0.5%</td>
<td></td>
<td>0.7%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>7-Mar</td>
<td>PPI</td>
<td>February</td>
<td>-0.6%</td>
<td></td>
<td>1.4%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>7-Mar</td>
<td>Core PPI</td>
<td>February</td>
<td>0.1%</td>
<td></td>
<td>0.3%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>8-Mar</td>
<td>CPI</td>
<td>February</td>
<td>0.0%</td>
<td></td>
<td>0.2%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>8-Mar</td>
<td>Core CPI</td>
<td>February</td>
<td>0.1%</td>
<td></td>
<td>-0.1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>26-Mar</td>
<td>Mich Sentiment-Prel. (survey)</td>
<td>March</td>
<td>73.6</td>
<td></td>
<td>73.6</td>
<td>0%</td>
</tr>
<tr>
<td>6-Apr</td>
<td>Consumer Confidence (survey)</td>
<td>March</td>
<td>52.5</td>
<td></td>
<td>46.4</td>
<td>13.1%</td>
</tr>
</tbody>
</table>
Internal and External Partners in Developing a Revenue Forecast

- State Economists
- Association of Realtors
- Federal Reserve Bank of Richmond
- Local Builders Industry Assoc.
- Commercial Real Estate Brokers
- Auto Industry
- Retail Industry
- Budget
- Development Services
- Economic Development
- Planning
- Public Works
- Schools

FINANCE STAFF

Multi-Year Budgeting, October, 2012
Revenue Drivers Feed the Revenue Model

Input Drivers (the variables)

Output – Component Revenue Estimates
Example: Real Estate Revenue Drivers

- Equalization (change in value of existing properties)
  - Residential
  - Commercial (retail, office, industrial, special use)
  - Apartments
  - Agricultural

- Growth (new value added through construction)
  - New Residential Units Constructed
  - Value of New Residential Units
  - Square Footage of New Commercial Construction Completed
  - Value of New Construction per Square Foot
Factors Impacting Residential Revenue Drivers

- Foreclosures
  - Number of Foreclosures
  - Foreclosures Net Bank Sales

- Real Estate Market Metrics
  - Average Sales Price
  - Average Number of Days on the Market
  - Ratio of Active Listings to Sales (Months of Inventory)

- External Factors
  - 30-Year Mortgage Rates
  - $8,000 Federal Tax Credit and Loan Modification Programs
  - Unemployment rate
Real Estate Dashboard

- Change in Average Monthly Sales Ratio
- Bank Sales Price vs. Assessed Values
- Sales Volume
- Foreclosures
- Inventory of Foreclosed Homes
- Bank Sales
- Real Estate Market Metrics (MRIS)
  - Number of Days on Market
  - Inventory to Sales Ratio

Available at $894,900

Haymarket, Va
Other Revenue Categories and Related Drivers

- Personal Property Tax
  - Average Value of Vehicles Located in the County
  - Number of Additional Vehicles Entering the County
  - Business Equipment Replacement During a Recession

- Sales Tax
  - Trends
  - Population growth or contraction
  - Inflation

- Investment Income
  - Federal Funds Target Interest Rate
  - Ten-Year Treasury Interest Rate
  - Growth of County Investment Portfolio (Tied to Tax Policy)
  - Expected Movement of Short and Long-Term Interest Rates
The Easiest Forecast

- When Data is “On Trend” It Tends to Stay on Trend Until There is A Reason To Deviate

- Ask the Key Questions ….
  - Why is this trending metric doing what it’s doing?
    - Example: Housing 2002-2005/6
      - Low Interest Rates
      - Low Unemployment
      - Easy Credit
      - Flexible Terms
      - Expanding Economy
      - Rising Housing Prices
      - High Housing Demand
  - Will anything change to affect this trend?

![Graph showing Avg. Annual Real Estate Appreciation](image-url)
The Hardest Forecast ....

- Deviation from Trend and/or Rapidly Changing Metrics Play Havoc with Forecasting
  - Forecast Transient Occupancy (hotel room tax) after 9-11
  - Forecast Auto Sales after credit collapse
  - Forecast Investment Income (interest rates) after the Lehman bankruptcy or U.S. Govt. credit downgrade
  - Forecast Retail Sales after area sniper homicides
A Wise Man Once Said...

- “It’s dangerous to make predictions, especially about the future.”

- “The future ain’t what it use to be.”

- “You’ve got to be very careful if you don’t know where you are going because you might not get there.”

  - Lawrence “Yogi” Berra
### FY 2013-2017 General Revenue Forecast (in thousands)

<table>
<thead>
<tr>
<th>Real Estate Tax Rate:</th>
<th>$1.204</th>
<th>$1.212</th>
<th>$1.224</th>
<th>$1.230</th>
<th>$1.230</th>
<th>$1.224</th>
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<tbody>
<tr>
<td>% to Total FY 2013</td>
<td>65.76%</td>
<td>16.76%</td>
<td>6.65%</td>
<td>1.74%</td>
<td>2.38%</td>
<td>2.92%</td>
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<tr>
<td>FY 2012 Revised Est.</td>
<td>$493,721</td>
<td>$126,725</td>
<td>$51,089</td>
<td>$13,395</td>
<td>$18,850</td>
<td>$21,960</td>
</tr>
<tr>
<td>FY 2013</td>
<td>$520,658</td>
<td>$132,685</td>
<td>$52,673</td>
<td>$13,740</td>
<td>$18,850</td>
<td>$23,090</td>
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<tr>
<td>FY 2014</td>
<td>$550,024</td>
<td>$138,090</td>
<td>$53,990</td>
<td>$14,110</td>
<td>$18,850</td>
<td>$23,770</td>
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<tr>
<td>FY 2015</td>
<td>$581,245</td>
<td>$143,440</td>
<td>$55,339</td>
<td>$14,500</td>
<td>$18,850</td>
<td>$24,470</td>
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<tr>
<td>FY 2016</td>
<td>$614,510</td>
<td>$148,970</td>
<td>$56,723</td>
<td>$14,890</td>
<td>$18,850</td>
<td>$25,430</td>
</tr>
<tr>
<td>FY 2017</td>
<td>$648,867</td>
<td>$154,670</td>
<td>$58,141</td>
<td>$15,290</td>
<td>$18,850</td>
<td>$26,430</td>
</tr>
</tbody>
</table>

#### Real Estate Taxes
- **FY 2012 Revised Est.**: $493,721
- **FY 2013**: $520,658
- **FY 2014**: $550,024
- **FY 2015**: $581,245
- **FY 2016**: $614,510
- **FY 2017**: $648,867

#### Personal Property Taxes
- **FY 2012 Revised Est.**: $126,725
- **FY 2013**: $132,685
- **FY 2014**: $138,090
- **FY 2015**: $143,440
- **FY 2016**: $148,970
- **FY 2017**: $154,670

#### Sales Tax
- **FY 2012 Revised Est.**: $51,089
- **FY 2013**: $52,673
- **FY 2014**: $53,990
- **FY 2015**: $55,339
- **FY 2016**: $56,723
- **FY 2017**: $58,141

#### Consumer Utility Tax
- **FY 2012 Revised Est.**: $13,395
- **FY 2013**: $13,740
- **FY 2014**: $14,110
- **FY 2015**: $14,500
- **FY 2016**: $14,890
- **FY 2017**: $15,290

#### Communications Sales Tax
- **FY 2012 Revised Est.**: $18,850
- **FY 2013**: $18,850
- **FY 2014**: $18,850
- **FY 2015**: $18,850
- **FY 2016**: $18,850
- **FY 2017**: $18,850

#### BPOL Tax
- **FY 2012 Revised Est.**: $21,960
- **FY 2013**: $23,090
- **FY 2014**: $23,770
- **FY 2015**: $24,470
- **FY 2016**: $25,430
- **FY 2017**: $26,430

#### Investment Income
- **FY 2012 Revised Est.**: $7,280
- **FY 2013**: $9,011
- **FY 2014**: $12,032
- **FY 2015**: $15,992
- **FY 2016**: $19,841
- **FY 2017**: $22,557

#### All Other
- **FY 2012 Revised Est.**: $21,031
- **FY 2013**: $21,095
- **FY 2014**: $21,487
- **FY 2015**: $21,870
- **FY 2016**: $22,351
- **FY 2017**: $22,835

#### Add'l Revenue w/ 3 new FTE's
- **FY 2012 Revised Est.**: -
- **FY 2013**: -

#### Total General Revenue
- **FY 2012 Revised Est.**: $754,051
- **FY 2013**: $791,802
- **FY 2014**: $832,353
- **FY 2015**: $875,706
- **FY 2016**: $921,565
- **FY 2017**: $967,640

<table>
<thead>
<tr>
<th>Year</th>
<th>$754,051</th>
<th>$791,802</th>
<th>$832,353</th>
<th>$875,706</th>
<th>$921,565</th>
<th>$967,640</th>
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<tbody>
<tr>
<td>Increase over Prior Year</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>2013</td>
<td>2.29%</td>
<td>5.01%</td>
<td>5.12%</td>
<td>5.21%</td>
<td>5.24%</td>
<td>5.00%</td>
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<tr>
<td>School Portion</td>
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<tr>
<td>FY 2013</td>
<td>$424,737</td>
<td>$446,161</td>
<td>$469,142</td>
<td>$493,712</td>
<td>$519,673</td>
<td>$545,754</td>
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<td>County Portion</td>
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<td>FY 2013</td>
<td>$325,163</td>
<td>$341,491</td>
<td>$359,016</td>
<td>$377,755</td>
<td>$397,570</td>
<td>$417,476</td>
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<td>Transportation Fund</td>
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<td>FY 2013</td>
<td>4,150</td>
<td>4,150</td>
<td>4,195</td>
<td>4,238</td>
<td>4,322</td>
<td>4,410</td>
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<td>Total General Revenues</td>
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<tr>
<td>FY 2013</td>
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<td>$791,802</td>
<td>$832,353</td>
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Questions

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