



Massachusetts Municipal Association

MMA BEST PRACTICES SERIES

Recommendations for Effective Local Government Administration and Management from MMA Policy Committees

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MMA Fiscal Policy Committee

Best Practice Recommendation: Revenue and Expenditure Financial Forecasting

BEST PRACTICE: Adopt as a policy or practice the use of financial forecasting to evaluate policy options and to inform decisions that could have a fiscal impact on the municipality. Financial forecasting involves the careful analysis of data and the development and regular review of multi-year revenue and spending forecasts into the local decision-making process on budget and finance issues. The development of forecasts should include clearly stated methods and assumptions that are understandable and publicly available. Forecasting can involve sophisticated techniques, but simple forecasts using readily available information can be valuable and a good starting place for many cities and towns. The purpose of a forecast is to ensure the fiscal sustainability of the city or town as major decisions are being made on operations, capital spending and long-term liabilities.

The Government Finance Officers Association recommends that governments use financial forecasting of revenues and spending as a decision-making tool to identify trends that could have an impact on the fiscal health of the government and the ability to provide public services. Forecasting should cover multiple years and be reviewed and updated regularly. The GFOA recommends that a forecast – and the methodology and assumptions upon which it is based – be shared with all stakeholders. The GFOA recommends that forecasting include an analysis of economic information, such as business cycles and relevant demographic data. The GFOA recommends that forecasts be linked to decision-making on issues that have a long-term impact on the government. Forecasting is used to enhance decision-making in a wide range of areas, including the development of policies on government reserves, fiscal sustainability, and capital improvement plans and spending.

The Division of Local Services recommends revenue and expenditure forecasting as a useful tool to help cities and towns evaluate policy choices that would have a multi-year impact on local finances. Like the GFOA, the DLS recommends multi-year forecasting with careful attention paid to methodology and data. The DLS recommends that cities and towns take a “moderately conservative” approach in forecasting revenues. Examples of decisions that would benefit from forecasting include deliberations on collective bargaining agreements, financing new school buildings that require debt payments, and determining the impact of business or residential development on municipal revenues and expenses.

Resources:

From Government Finance Officers Association: www.gfoa.org/financial-forecasting-budget-preparation-process

From Division of Local Services: www.mass.gov/dor/docs/dls/mdmstuf/technical-assistance/best-practices/forecastrevenuesandexpenditures.pdf