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Belmont Financial Forecast: Users' Guide and Assumptions

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INTRODUCTION

The object of the Town of Belmont's financial forecast is to conservatively project revenues and expenditures five years into the future (FY20120-FY2024). The forecast is intended to provide policymakers with the information they need to make informed decisions around the Town's financial strategies and policies, long-term financial and capital planning, and long-term contracts or obligations.

Revenue and expenditure forecasting is a powerful financial planning tool that can be used to isolate the impact of particular future events and determine their effects on the Town's financial picture. The forecasting model is designed using reasonable assumptions about a wide variety of future events and, by using these assumptions along with known facts, a comprehensive view of the Town's fiscal outlook emerges. Though potential exists that any one item in the forecast may be less than accurate, when taken as a whole, a well-built model presents a fair representation of the Town's future finances.

The approach used in the forecast model for the Town of Belmont assumes that current staffing service levels will be maintained in the future years of the forecast. The model also assumes that existing Massachusetts General Laws and regulations will remain unchanged over the forecast period. However, as new information becomes available here forward, the assumptions and estimates used in the current projections will need to be regularly reevaluated by City officials to determine if they are still appropriate and reasonable.

The forecast is structured as a series of Excel worksheets. Revenues are projected in detail in the "Revenue Projections" worksheet and expenditures are projected in detail in an "Expenditure Projections" worksheet. The totals from the detailed revenue and expenditure projections flow into a "Summary" worksheet which reveals projected future operating surpluses or deficits. More detailed sheets are available for more in-depth analysis of issues like new growth (Growth), debt excluded from Proposition 2 ½ limits and all other non-excluded City debt ("Non-Exempt Debt Summary" and "Exempt Debt Summary") and local receipts (Local Rcpts). An additional worksheet estimates the impact of cost-of-living increases ("COLA") for collective bargaining agreements and salaries.

REVENUE PROJECTIONS

PROPERTY TAX LEVY

Annual tax levy growth is constrained by Proposition 2 1/2, the Massachusetts General Law that limits the annual growth in a municipality's total tax levy to 2.5 percent, plus an allowance for certain new construction and other additions to the tax rolls. The law also allows a city or town to increase taxes beyond this annual levy limit with voter approval. An override of this limit by voters becomes a permanent part of the tax levy calculation in future years and is best used for recurring expenses in the regular operating budget.

A debt exclusion may also be approved by voters to increase the levy limit temporarily to fund capital projects. Generally, these projects are financed by borrowing and the annual debt service is added to the levy limit each year until the project is paid off.

The FY2020-FY2024 forecast for Belmont projects new growth to be \$700,000 per year. This is a blend between the five-year New Growth average and the ten-year average. FY 2018 Growth was not included in the calculation, as it was atypically high. New growth is reported to the State each year on Form LA-13 which is typically submitted in late summer or early fall prior to setting a tax rate.

Belmont has approved a number of debt exclusions in the past. As debt is issued and the annual tax rate set, the Town Treasurer/Collector and Town Accountant complete the State DE-1 schedule to calculate the annual debt service that can be raised outside the proposition 2 /12 limits. The existing exempt debt will be retired at the end of FY 2027.

Levy limit information is published each year by the Division of Local Services (<https://dls.gateway.dor.state.ma.us/gateway/Login>) and should be reviewed by City officials periodically in late summer and early fall as growth is certified.

STATE AID CHERRY SHEET

Chapter 70 – Chapter 70 education aid is determined each year by the State Department of Elementary and Secondary Education (DESE) using a complex formula. The formula entails calculating a foundation budget for each municipality or school district based on the number and characteristics of the pupils (e.g., low income, bilingual or vocational) in the district. The foundation budget represents the minimum level of spending necessary to provide an adequate education in each district. Generally, in communities with sufficient resources, required school spending (aka, “net school spending”) is well above the calculated foundation budget, reflective of historically high education spending. In communities with fewer resources and lower historical spending on education, the formula seeks to maintain required net school spending at a level at least as high as the foundation budget.

To determine the relative contributions from municipal revenues versus state Chapter 70 aid necessary to meet required education spending levels, DESE calculates target levels of local (municipal)

contribution and target levels of (state) Chapter 70 aid. These calculations are based on the total income of a municipality's residents and the total property wealth of the municipality. For example, if a community has sufficient income and property wealth to cover 60 percent of the foundation budget, then the State aid target is 40 percent of foundation. Income is measured using State Department of Revenue total income by community from state tax returns and property wealth is measured using equalized property values for each community. Equalized property values are determined by the state every two years and control for differences in local assessing practices. In cases where a municipality has a low ability to pay, less is required from the municipality and state Chapter 70 aid fills the gap between the foundation budget and the required local contribution.

Belmont provides public education locally at four elementary schools, one middle schools and one senior high school. The Town receives Chapter 70 state school aid to offset some of the costs to educate these pupils. In FY2018, state Chapter 70 aid contributed \$7.8 million to Belmont. The forecast assumes that this revenue will increase by 5% in FY 2020, due to dramatically increasing enrollment, and then phase down to a 2% annual increase by FY 2023. In addition, Belmont's high school pupils attend the Minuteman Regional School District The Town has decided to opt out of the regional school system by the end of FY 2020. To offset this, the Town has decided to expand its public-school space by Town/MSBA funded building expansion.

Past state aid has ranged widely from \$25 per pupil to \$65 per pupil and it is recommended that City officials revisit the projection of Chapter 70 funding as the State budget process progresses. However, DESE only publishes detailed Chapter 70 numbers for the Governor's budget and the final State budget on its school finance page under the Chapter 70 heading: <http://www.doe.mass.edu/finance/chapter70/>.

Unrestricted General Government Aid (UGGA) – Belmont is anticipating receiving \$2.3 million in this category in FY2019 compared to \$2.2 million in FY2018 for an increase of \$78,948 (3.5%). UGGA is projected to grow at a rate of 2.5% for this projection.

To keep UGGA and the other cherry sheet accounts up to date, City officials will need to monitor the local aid estimates published by the Division of Local Services at each juncture of the state budget process: <http://www.mass.gov/dor/local-officials/municipal-databank-and-local-aid-unit/cherry-sheets/>. The first of these estimates will come after the release of the Governor's budget each year in late January followed by the House Ways and Means Committee budget in mid-April, the final House budget in late April, the Senate Ways and Means budget in mid-May, and final Senate budget in late May. The Conference Committee's budget, which resolves differences in the two legislative versions of the budget, is typically issued in late June. Final cherry sheets reflect any vetoes by the Governor and/or any legislative overrides of these vetoes.

Veterans Benefits and Exemptions for Veterans and Elderly – These accounts consist of reimbursements for veterans' benefits and certain local property exemptions for qualified individuals. In FY2019, the Town will receive \$63,405 in reimbursements compared to \$43,575 in FY 2018. This forecast assumes level reimbursements.

Aid to Public Libraries -- This item is a cherry sheet offset and may be spent without an appropriation by the Town's library. This account has no impact on the forecast since it is also raised on the expenditure side, essentially pulling these revenues out of the general revenue mix for direct use by the library.

LOCAL ESTIMATED RECEIPTS

Local estimated receipts are locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, payments in lieu of taxes, penalties and interest on taxes, departmental revenue, fines, and permit fees. Belmont reports on 13 categories of local receipts. The history of local receipts versus actual receipts is shown on the local receipts worksheet in the forecast file. The Town has a practice of conservatively budgeting these items and routinely collects approximately \$600,000 more than was budgeted. In FY2016, the figure was more than \$1.4 million. As a result, local receipts in excess of estimates have been a primary factor in the Town's positive year end results and free cash certifications

In FY2019, the Town anticipates collecting \$7.7 million in local receipts versus \$7.5 million in FY2018 for an increase of \$167,000 (2.2%). Motor vehicle excise revenue projected for FY 2019 is \$3.435 million while FY 2017 actual collections were \$3.46 million). This is the Town's largest local receipt constituting about 44.5 percent of the total estimated receipts. Other significant local receipts include license and permits, fees, and other departmental revenue. The Town has adopted the State authorized meals tax generating \$215,800 in FY 2017. For forecast purposes, motor vehicle excise is anticipated to grow by 3% per year through the term of the forecast. The room/meals tax is projected to increase 2% per year. Other Departmental Revenue, Licenses, and Fines are projected to grow by 1% per year. All other items are projected to remain stable. This results in a net projected increase of 1.94% per year.

ENTERPRISE FUNDS

Water / Sewer Budget and Indirect Costs - The Town utilizes an enterprise fund for its Water and Sewer services. Revenues generated are used to cover costs, including capital outlay and indirect costs. Revenues listed in this section are used to cover all of the costs projected in the expenditure section. Approximately \$312,000 of indirect costs from other departments that provide support to the enterprise is also included in the revenue projection tab. As part of the tax rate setting process, the Town Auditor completes a form submitted to the State that details all water revenues and expenditures.

AVAILABLE FUNDS/OTHER FINANCING SOURCES

Available Funds for Operating Budget- This line item represents funds that are dedicated to offset expenditures in the expenditure section. Included in the FY2019 budget and in recent prior years, the Town has used non-recurring revenue from the General Stabilization Fund and Free Cash to balance the annual budget. In addition, revenue from Overlay surplus (\$235,000), a recurring revenue, and a Light Plant PILOT (\$650,000), a non-recurring revenue, also support ongoing services. For the purposes of adopting "Best Practices", the use of Free Cash to support recurring operations is phased down and the practice ends in FY 2024. The Town had a general override in FY 2015. These funds were deposited into the General Stabilization Fund, for the purpose of offsetting annual General Fund deficits through FY 2019. With a disciplined budget control, the Town has stretched the use of these funds through FY 2020 or FY 2121. In the year after the Override, the Town used the levy capacity for ongoing services, affectively converting the funds in the General Stabilization Fund to non-recurring revenue. This has created a structural deficit in the budget that must be addressed in future year budgets.

FREE CASH

Free Cash for Strategic Reserves and Capital Projects-

In prior years, the Town's capital commitment was funded through debt service (both non-excluded and excluded) and pay as you go non-discretionary and discretionary projects. Free cash would be used to fund the General Stabilization Fund and other reserves such as OPEB's. Phasing out Free Cash as a revenue to support recurring services allows the adoption of a new strategy for Free Cash use. Assuming a conservative assumption that prior year end Free Cash will be approximately \$2 million per year, and Free Cash use to support the operating budget is phased down and finally out by FY 2024, this non-recurring source of revenue can be matched against non-recurring uses such as Snow deficits, OPEB's and Capital.

EXPENDITURE PROJECTIONS

MUNICIPAL DEPARTMENTS

In the forecast, Town departments have been grouped by major categories consistent with City budget and state expenditure reporting. The department budgets are reported as follows: General Government, Public Safety, Public Works, Health, and Human Services and Library, The Enterprise departments (Water and Sewer) are reported separately.

Wage settlements for all Library Union members has been settled through FY 2020 at a rate of 1.5%. All remaining union and non-union positions have not as yet settled. For projection purposes, the impacts of wage settlements beyond FY2019 have also been factored into the COLA salary worksheet for the five- year forecast. The forecast utilizes a 2% COLA but this is intended as an example of cost impact moving forward and not a recommendation for any wage settlements. The Town of Belmont utilizes a salary step system. Therefore, the forecast utilizes a 0.5% step increase across the board. Cost impacts have been included in the Expenditure worksheet within each Salary and Wages line item. The COLA worksheet allows for simulation of other wage agreements and step amounts.

Departmental operating budget accounts have been projected to increase by 2% per year, which is a beginning guideline. As the budget review proceeds each year, adjustments can be made in the forecast.

SCHOOLS

Belmont School Department – The Belmont School Department, under the jurisdiction of the Belmont School Committee, provides education services at four elementary schools, one middle schools and one senior high school. The FY2019 Public School budget is approximately \$57.6 million. For the purpose of forecasting, School health insurance, unemployment benefits and Medicare, have been moved from the departmental section of the expenditure tab to the benefits section. The forecast utilizes the School Department inflation factors for SPED, capital and non-salary expenses. Salaries are reflected at the same percentage as the Town and are included in the COLA tab

Minuteman Regional School - Belmont has sent students to the School and its percentage of the total yearly assessment was based upon the ratio of Belmont student enrollment to the total student enrollment. The Town has recently decided to leave the Regional school system. The Town Budget includes an assessment through FY 2020. For Regional School debt service. The Town has until calendar year 2019 to make a final decision regarding this matter. For the purposes of the forecast, it is assumed that the Town will decide to withdraw. Regional School costs, with the exception of debt service are projected at a 3.5% annual growth.

DEBT SERVICE

Existing Non-Exempt Debt - Debt Service costs in this category are funded within the limits of Proposition 2 ½. FY2043 is the last year for debt payments for existing bonded projects, as they will all be paid off in that fiscal year.

BAN Interest- Non-Exempt Debt - During construction/acquisition and before long term debt is issued, the Town borrows funds for cash flow purposes and/or market timing. The interest rate is lower on these short-term borrowings and this budget item is a projection of these interest costs.

Authorized/Unissued- Non-Exempt Debt - The Town has a number of projects that have been approved by Town Meeting, but for which long-term Debt has not yet been issued. The projected debt costs for these projects are shown in this column. There are currently three general fund authorized projects which are scheduled for future borrowing. The School Modular project is scheduled to begin debt payments in FY2019. The Police Building and DPW Building are anticipated to be borrowed and debt service beginning in FY 2019.

Existing Exempt Debt - Debt Service costs in this category are funded outside the limits of Proposition 2½. FY2035 is the last year for debt payments for existing exempt bonded projects.

FY20-FY24 CIP Exempt Projects - The Town is anticipating that two exempt projects will be authorized in the near future. A \$231.8 School construction project is likely to begin debt service payments in FY 2021. This amount nets out the School Building Assistance funding from the State. Another excluded debt project is for a Library construction project. There are no existing cost estimates or schedules for completion.

RETIREMENT

Retirement - Town pension costs are projected based on the estimated appropriations issued by the Public Employee Retirement Administration Commission (PERAC). The appropriation letter from PERAC breaks down the assessments between the Town, Enterprise Funds, Light Plant and the Town Housing Authority, and shows the percentage of the total borne by each entity. The allocation for Belmont is detailed in the Retirement worksheet. The forecast utilizes the latest actuary analysis so as to achieve full funding by FY 2029.

INSURANCES

In order to project benefits in future years, appropriations for health Insurance, life insurance, and Medicare were taken out of each Town department and the School department, and placed in the Benefits section of the Expenditure tab.

Unemployment – The Town/School Unemployment combined cost for FY 2019 is \$130,000. This variable is level funded throughout the term of the forecast.

Health Insurance – The Town receives its health insurance through the Harvard Pilgrim Health Group. The forecast includes an 8.0% increase in rates in FY 2020. Rates are estimated to phase down in the out years to 5% in FY 2023. The health insurance market is volatile and subject to extreme changes. As such, this variable should be reviewed and adjusted on an annual basis to reflect current trends. The

Town has traditionally spread the cost of health insurance into each department. For the purposes of forecasting, this report centralizes these costs under Employee Benefits in the Expenditure Projection tab. School Department health benefits are shown separately from Town health benefits to provide an audit trail back to the originally proposed School Department budget.

Property/Liability Insurance - This insurance covers municipal buildings and contents, motor vehicles and public official liability insurance. These costs have been relatively stable in recent years and have been forecast to grow modestly at 3.0%. As additional building or building improvements are added to the property portfolio, this variable will need to be adjusted upward.

Workers Compensation- Belmont's Town / School FY 2019 appropriation is anticipated to be \$359,014 to support Workers Compensation claims. It is anticipated that this cost will increase by 2% per year through the term of the forecast.

Medicare – The Town/School appropriation for FY2019 is anticipated to be \$900,371, representing 1.5% of annual salaries. In the forecast, Medicare has been projected to increase by 2.5% per year, or whatever final COLA settlement is reached.

ENTERPRISE FUNDS

Water and Sewer Direct Charges- The Water and Sewer Enterprise Funds are a self-sufficient operation. All of the direct costs for water and sewer and sewer expenses are included in this category. The combined cost for FY2019 is slightly greater than \$16.3 million. The indirect costs are budgeted within the various operating budgets and are allocated in the enterprise report submitted to the State when the tax rate is set. As a self-sufficient operation, all of these costs are offset by water/sewer revenues in the revenue detail worksheet. **This forecast model does not attempt to project future revenue needs and expenditure costs for the water or sewer operations.** The Town also has a number of authorized but not borrowed enterprise fund projects and debt service costs for these projects have not been projected for this forecast.

OVERLAY

Allowance for Abatements and Exemptions - The overlay account has been projected to increase by 0.88% per year. In a revaluation year, a community typically has more abatement requests, so a good practice is to increase the overlay to reflect the risk of additional abatements. This model should be updated to reflect the update year.

STATE AND COUNTY ASSESSMENTS

All State assessments included in the forecast are based on the Cherry Sheet estimates published by the Division of Local Services. The most significant of the State assessments in Belmont is the Massachusetts Bay Transit Authority (MBTA), representing 93.4% of all State Assessments. All State Assessments are anticipated to increase by 2.5% per year, through the term of the forecast.

FREE CASH/OTHER AVAILABLE FUNDS

Free Cash for Strategic Reserves and Capital Projects-

In prior years, the Town's capital commitment was funded through debt service (both non-excluded and excluded) and pay as you go non-discretionary and discretionary projects. Free cash would be used to fund the General Stabilization Fund and other reserves such as OPEB's. Phasing out Free Cash as a revenue to support recurring services allows the adoption of a new strategy for Free Cash use. Assuming a conservative assumption that prior year end Free Cash will be approximately \$2 million per year, and Free Cash use is phased down and finally out by FY 2024, this non-recurring source of revenue can be matched against non-recurring uses such as Snow deficits, OPEB's and Capital.

OPEB Fund- Other Post-Employment Benefits (mainly retiree health insurance) is a significant future cost for municipalities in Massachusetts and across the U.S. Unlike Massachusetts retirement law, there is no requirement to put money aside for these future costs that are being incurred as employee work. State law does provide a mechanism for municipalities to set aside funds voluntarily in a special fund to accumulate money to pay for these future costs. Belmont has established such a fund and has appropriated Free Cash, when available to this fund. Beginning in FY2020 and beyond it is anticipated that the Town will annually contribute to this fund by a minimum of \$25,000 per year and increase the appropriation each year by \$25,000.

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PROCESS TO UPDATE FORECAST

Description of Worksheets

The Belmont Revenue/Expenditure Forecast file has a number of independent and interconnected worksheets. The following describes the worksheets which include:

- Summary
- Revenue Projections
- Growth
- Local Receipts
- Expenditure Projections
- COLA
- Retirement
- Capital Investment
- City Budgets Proposed and Appropriations
- Existing Debt Summary Schedule
- Projected Debt Service for Authorized/Unissued Bonds
- Tax Levy Limit chart
- Free Cash/Stabilization Fund chart

Summary – This worksheet rolls up from the Revenue and Expenditure forecast details to provide a quick overview of the five- year plan.

Revenue Projections – This worksheet is used to list the details of the various revenue categories and the assumptions that are used in the projections. The Final Recap column will require manual data entry each year to input actual revenues collected. Future year projections are calculated utilizing the straight-line percentage change column on the far right. If no growth is expected, a 0 should be input in the “percentage projection” column. If a revenue is not projected to grow linearly, the revenue expectations should be input manually into the forecast. Once the final tax recap is approved, any changes in the revenue detail must be made in this worksheet.

Growth – This worksheet is a summary of the new growth taxes that the Town can raise within the limits of Proposition 2 ½ for the fiscal year. Once the final growth amount is calculated by the Assessors, the Selectmen set the tax rate, and the tax recap is approved by the State, the final amounts will need to be added to the worksheet. When updating the forecast each year, the Finance Team should discuss any changes in the growth projections.

Local Receipts – This worksheet details the history of local receipts and is updated at the close of each fiscal year and at the time of the tax rate submission to the state. It plays a valuable role in the preparation of revenue estimates for the upcoming budgets.

Expenditure Projections – This worksheet lists the details of the various departments and other

expenses categories that are in the Mayor's City budget ordinance. In addition, it lists all the non-departmental financial appropriations. Finally, it lists other expenditure categories that do not require City Council appropriation but that are expenses that must be included in the tax rate setting process. The wage line for each department is automatically changed when the user enters information into the COLA worksheet. The user must also enter manually or use the cost increase straight-line factor for the other cost items listed.

COLA and Wages – This worksheet provides the user with multiple “what if” scenarios on COLA and step increases. Factors entered into the COLA and/or step cells automatically update the department wage line in the Expenditure Projections detail.

Retirement – This worksheet lists the current PERAC retirement appropriation for Essex County and Belmont's share. The funding schedule is updated by an actuary hired by the County every 3 years and Information will be provided to Belmont to update the forecast.

Capital Investment – The capital worksheet brings together the Town's existing general fund debt service, estimated debt for projects approved by Town Meeting and other capital appropriations with the funding anticipated to be available for the Town's developing capital plan. The underlying assumption in this worksheet is that a minimum of \$300,000 will be available on a recurring annual basis to finance capital items and a minimum of \$100,000 will be appropriated annually to the Capital Stabilization fund. The worksheet also calculates the Town's annual general fund capital investment as a percent of net revenues, which excludes the enterprise fund. The Town's FY2017 capital investment as a percent of net revenue is 4.23 percent. Going forward, the Town's investment increases by FY2020 to 5.78 percent of net revenue as a result of the new debt for the Town hall renovation. It is anticipated the new CIP debt projects that are contemplated in the FY2018-FY2022CIP plan will maintain the Town's investment at a minimum of 5.78%. This tab can be used on an iterative basis to identify the amount of capital investment needed to reach the Town's target for capital as a percent of prior year revenues, as will be established in the Town's financial policies.

City Budgets – This worksheet duplicates the budget line items that the Mayor submits to Town Meeting and can be utilized to roll up to the expenditure detail worksheet.

Existing Debt Summary – This worksheet summarizes all of the Town's existing debt service by fiscal year by funding source. This worksheet must be updated whenever the Town issues permanent debt. The Town Treasurer and the Financial Advisor play an invaluable tool in maintaining the detail debt schedules for this summary.

Projected Long Term Debt Service for Authorized/Unissued Debt – This worksheet projects the timing and estimated debt service for projects that have been approved by the Town Meeting but have not yet been permanently borrowed. The Financial Advisor, City Treasurer, and the Mayor work together to time the issue and principal amount based on needs, budget impact and market.

Steps to Update

The process for updating the forecasting spreadsheet to reflect a new base year must be done systematically and with care as changes to certain data and formulas will be needed. As a result, it is strongly recommended that users save a separate back-up file of the spreadsheet before any changes are saved in the spreadsheet they are updating.

Generally, the updating of the Revenue and Expenditure spreadsheets should occur after the end of the current fiscal year after the Town's budget for next year has been adopted by the Town Meeting and final cherry sheets are issued. Both spreadsheets must be updated one final time when the tax recap approved by the State.

This final step will update the structure of the forecast to make room for a new Year 5. To do this, insert a column to the right of the last FYXXX Projection year in both the Revenue and Expenditure spreadsheets and copy the data and formulas from the prior column. This step will add the data for the last year of the five-year forecast. This same process should be followed for all tabs of the worksheet.

Data for what was previously the base year of the forecast must also be updated with actuals. For the FY2018-FY2022 forecast, the base year was FY2017 and included revenues and expenditure expectations approved in the Town's adopted budget. These must now be replaced with actual revenues and expenditures. The new base year will then need to be updated using that year's approved budget. The first update will change the forecast to FY2019-FY2023 and FY2018 will become the base year.

After the base year has been updated, the user is now ready to prepare the five-year forecasts working with the appropriate individual worksheets. To forecast the first-year revenues or expenditures, a percent change is applied to the base year to yield the projected amount. To project the second year, the percent change is applied to the first forecast year as the base. In other words, the selected percent change is applied to each year of the forecast. This is accomplished by modifying, if appropriate, the percentage change column to reflect recent experience and new information/expectations

In some instances, the user may find that it is easier to simply enter values for certain items. This is fine as long as the user remembers to replace the formulas later if they want to determine the projections based on percent change in other years.

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ABOUT THE CENTER

The Edward J. Collins, Jr. Center for Public Management in the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts Boston was established in 2008 to improve the efficiency and effectiveness of all levels of government. The Center is funded by the Commonwealth and through fees charged for its services.



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