



FORECASTING

PURPOSE

To assess the range of choices available to budget decision makers when determining how to allocate resources, this policy establishes guidelines for evaluating revenue sources and the requirement to determine an expenditure strategy as part of the annual budget process and longer range fiscal planning. Forecasting helps local officials understand the long-range implications of pending near-term decisions.

APPLICABILITY

This policy applies to the Board of Selectmen and Finance Board in their budget analysis and decision-making responsibilities. It also applies to the job responsibilities of the Town Accountant and the managers of all revenue-generating departments.

POLICY

A. Revenue Guidelines

The Town will continuously seek to diversify its revenue to improve the equity and stability of sources. Each year and whenever appropriate, the Town will reexamine existing revenues and explore potential new sources. A balance will be sought between elastic and inelastic revenues to minimize any adverse effects caused by inflation or other economic changes. Additionally, intergovernmental revenues (e.g., local aid, grants) will be reviewed annually to determine their short- and long-term stability in order to minimize detrimental impacts.

The Town will avoid using one-time revenues to fund ongoing or recurring operating expenditures. These one-time revenue sources can include, but are not limited to, free cash, overlay surplus, sale of municipal equipment, legal settlements, insurance proceeds, and gifts. Additionally, the Town hereby establishes the following priority order when appropriating one-time revenues:

- Snow and Ice Deficit
- General stabilization fund
- Road improvement stabilization fund
- Capital stabilization fund
- Cyclic expense stabilization fund
- Dam maintenance stabilization fund
- OPEB trust fund
- [Other]

Economic downturns or unanticipated fiscal stresses may compel reasonable exceptions to the use of one-time revenue. In such cases, the Finance Board, in consultation with the Town Accountant, can recommend to the Board of Selectmen its use for operational appropriations. Such use will trigger the

Finance Board to develop an action plan with the Town Accountant to avoid continued reliance on one-time revenues.

State laws impose further restrictions on how certain types of one-time revenues may be used. The Town will consult the following General Laws when the revenue source is:

- Sale of real estate: M.G.L. c. 44, § 63 and M.G.L. c. 44, § 63A
- Gifts and grants: M.G.L. c. 44, § 53A and M.G.L. c. 44, § 53A½

This policy further entails the following expectations regarding revenues:

- The Assessing Department will maintain property assessments for the purpose of taxation at full and fair market value as prescribed by state law.
- Town departments that charge fees will annually review their fee schedules and propose adjustments when needed to ensure coverage of service costs.
- The Building Department will notify the Board of Selectmen of any moderate-to-large developments that could impact building permit volume.
- Department heads will strive to seek out all available grants and other aid and will carefully consider any related restrictive covenants or matching requirements (both dollar and level-of-effort) to determine the cost-benefit of pursuing them.
- Revenue estimates will be adjusted throughout the budget cycle as more information becomes available.

B. Expenditure Guidelines

Annually, the Town will determine a particular budget 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.

C. Financial Forecast Guidelines

To determine the Town's operating capacity for each forthcoming fiscal year, the Finance Board with the Town Accountant will annually create a detailed budget forecast and provide it the Board of Selectmen. The Finance Board with the town accountant, if requested will prepare a five-year financial projection of revenues and expenditures for all operating funds. These forecasts will be used as planning tools in developing the following year's operating budget as well as the five-year capital improvement plan.

To ensure the Town's revenues are balanced and capable of supporting desired levels of services, forecasts for property taxes, local receipts, and state aid will be conservatively based on historical trend analyses and will use generally accepted forecasting techniques and appropriate data. To avoid potential revenue deficits, estimates for local receipts (e.g., inspection fees, investment income,

license fees) should generally not exceed 90 percent of the prior year's actual collections without firm evidence that higher revenues are achievable.

Additionally, the Town's forecast model should assume that:

- The current level of services will be maintained.
- Property taxes (absent overrides) will grow at the limits of Proposition 2½.
- New growth will be projected conservatively, taking into account the Town's five-year average by property class.
- Local receipts and state aid will reflect economic cycles.
- Historical trends in the growth of specific operating expenses and employee benefits will prevail.
- Potential cost-of-living adjustment estimates for the impact of future compensation increases are included.
- Debt service on existing debt will be paid, and the Town's Capital Planning and Debt Management policies will be followed.
- Annual pension contributions and appropriations to amortize other postemployment benefit liabilities will continue.
- Reserves will be built and maintained in compliance with the Town's Financial Reserves policy.

REFERENCES

M.G.L. c. 44, § 20

M.G.L. c. 44, § 53A

M.G.L. c. 44, § 53A½

M.G.L. c. 44, § 63

M.G.L. c. 44, § 63A

Town of Holland policies on Capital Planning, Debt Management, and Financial Reserves

DLS Best Practice: Revenue and Expenditure Forecasting

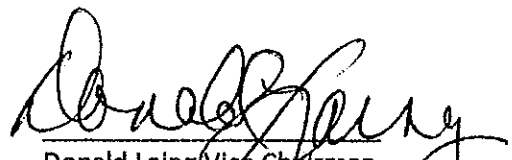
DLS Bulletin 2013-01B: Bond Premiums and Debt Exclusions


Government Finance Officers Association article: Structuring the Revenue Forecasting Process


EFFECTIVE DATE

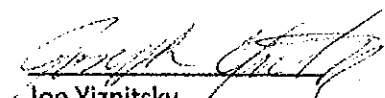
This policy was adopted on 11/01/2017.


Ernest Fancy Chairman


Donald Laing Vice Chairman


Mike Brady Secretary


John Ebersold


Joe Yiznitsky