

**When
Perfection is
Expected in an
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World**

Managing Revenues in Challenging Times

Overview

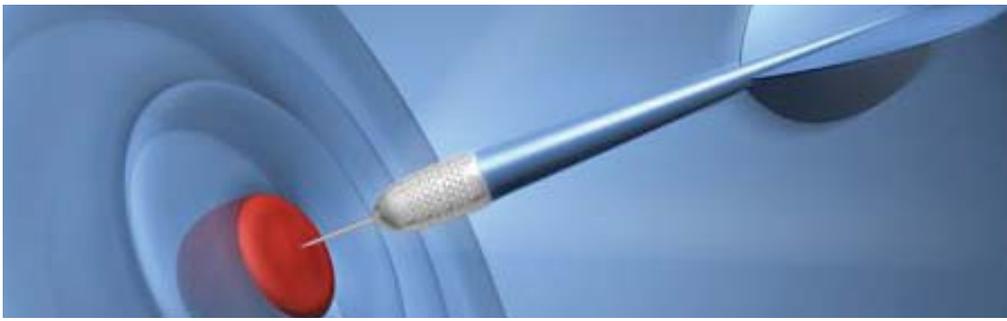
Revenue forecasting is one of the most challenging things a budget manager does each year. Because of the mechanics of budget cycles, you're often forecasting cashflows that won't occur until 12-18 months from now. That chore is difficult on the best of days.

Unfortunately, local government budgeting rarely sees good days. It's a constant fight to understand the drivers of your main revenue sources, to intuit trends in those drivers and to extrapolate impacts on your particular operating budget. Like all things in life, forecasting and quality revenue management improve with practice and as the result of a better understanding of the underlying drivers of those revenues.

But at the end of the day, all you can do is to do your best. The world is imperfect. Your resources (especially quality information) are finite. Your revenue projections will likely be wrong. (Sorry, it's true.)

But, there are some things you can do to inform the process. We'll talk today about the main types of revenues in your budgets, the drivers behind those revenues, and the timing of the impact to your budget when changes occur in those drivers.

We'll equip you with some tools to forecast your revenues and track collections. And, we'll have you put your new knowledge to the test in a group forecasting exercise.



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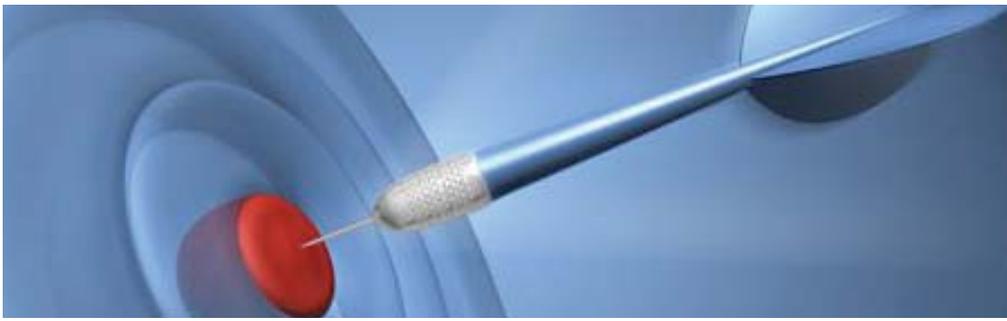
Introductions

Jeff White
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Columbia Capital Management, LLC
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Jeff joined Columbia Capital in 2001 after working for more than a decade in local government. Jeff was responsible for developing and managing budgets for most of that time and was often a victim of his own revenue forecasting.

Columbia Capital Management, LLC
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www.ColumbiaCapital.com

Columbia Capital is an independent financial and investment advisor, providing advice to state, regional and local governments. With eight full-time public finance staff members, Columbia Capital is the largest independent financial advisory firm in the region. Columbia Capital is registered as a "municipal advisor" with the SEC and MSRB.

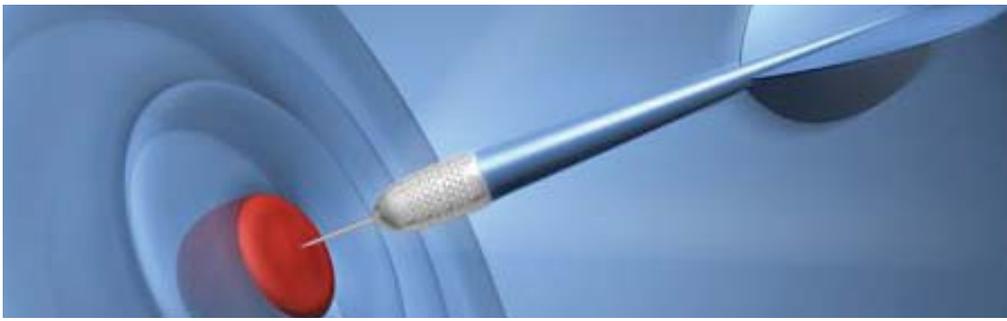


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Agenda

25 min	Fundamentals of and Approaches to Forecasting/Tools Available to Help You
5 min	Group Exercise Instructions
5 min	Break and Gather in Groups
20 min	Group Work
5 min	Gather in Main Room
20 min	Group Reports
10 min	Wrap-Up/Lessons Learned



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Local Government Revenue Types

Taxation

The primary source of funding for general local government operations, this category includes real and personal property tax, sales and use tax, and earnings tax.

Sale of Services

This source of funding includes anything where the government charges for all or of a portion of the services being consumed by the public. Examples include water and sewer user fees, parks and recreation fees, and even court fees.

Sale of Assets

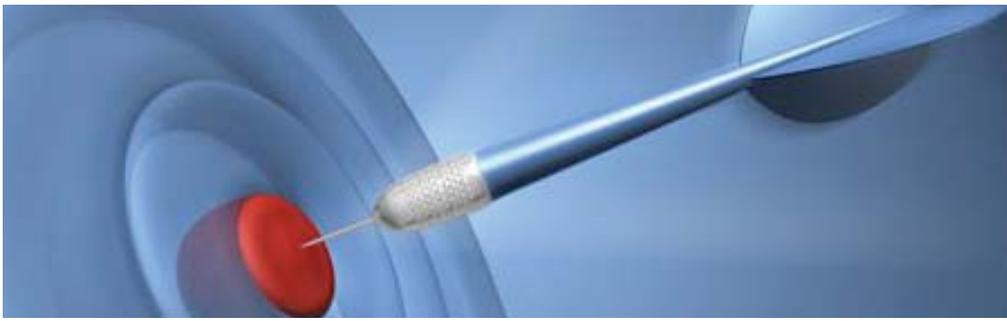
This source tends to produce relatively insignificant recurring revenues and, from time to time, can generate large one-time fees. Examples range from the sale of vehicles at auction to the sale of an unwanted government facility to the sale of a revenue-producing asset.

Transfers from Other Governments

Intergovernmental revenues constitute a varying and often frustrating component of local government budgets. These revenues are often formula driven but are subject to routine legislative changes, especially in financially lean times.

Borrowing from the Public

Borrowed funds are typically used to finance long-lived assets.



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Revenue Drivers

Property Taxes

Housing sales, home values, mortgage rates, personal income, unemployment rate, new construction activity

Sales Taxes

Unemployment, personal income, discretionary income, inflation rate, development activity

Sale of Services

Elasticity of demand, substitution effect

Sale of Assets

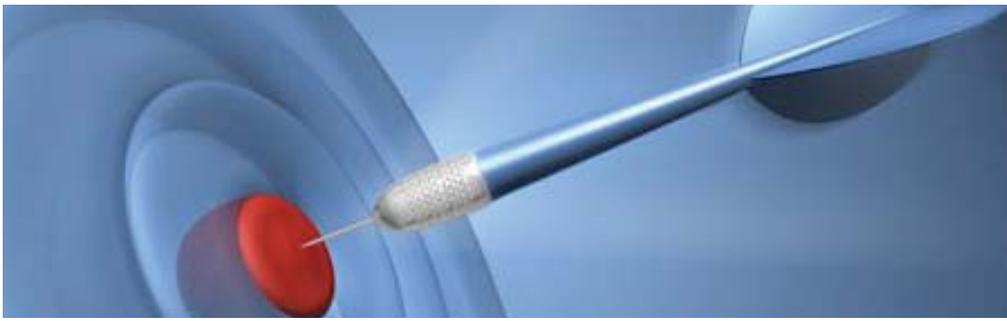
General economic conditions, financing rates (commercial and public), occupancy rates, unemployment, desperation

Transfers from Others

General health of the economy, general health of those other governments' own budgets, availability of subsidy programs

Borrowing

Treasury rates, Treasury to tax-exempts relationship, tax-exempt rates, general economic conditions, relative wealth of investors



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Timing of Fiscal Impact

Property Taxes

Significant lag

Sales Taxes

Lag of about six months

Sale of Services

Overall demand: relatively immediate
Substitution effect: potentially, significant lag

Sale of Assets

Can lead or lag, depending upon other factors

Transfers from Others

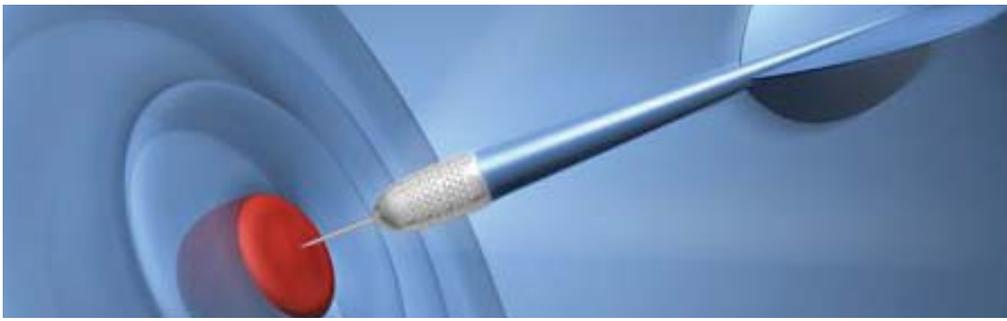
Lag, but can be counter-cyclical in case of stimulative measures

Borrowing

Typically, counter-cyclical (interest rates are generally lower in times of economic stress)

Key Point:

Your finger has to be on the pulse of “upstream” drivers in order to create solid forecasts



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Sources of Data

Property Taxes

County; Case-Schiller Housing Index;
building permit data (new construction)

Sales Taxes

State revenue projections; state and local
chambers of commerce; university business
research departments; U.S. government
information on incomes

Sale of Services

Historical figures; investor owned utilities;
other communities' experiences

Sale of Assets

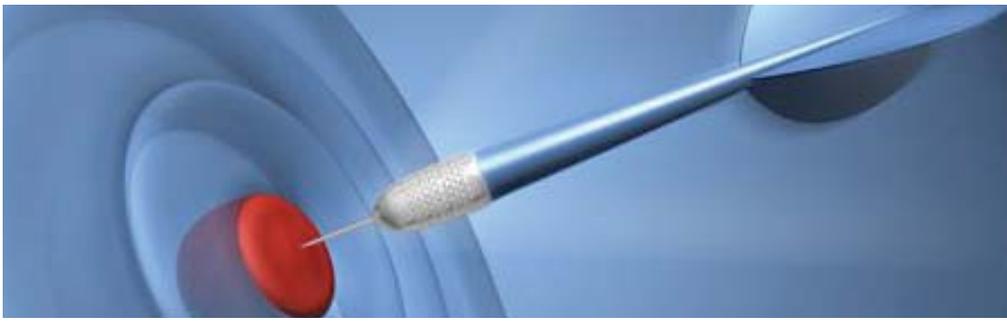
Local real estate agents and commercial
brokers; auction houses; other communities

Transfers from Others

State municipal league; state GFOA

Borrowing

Bloomberg.com; Bond Buyer; a financial
advisor; other issuers



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Approaches to Forecasting

Informed/Expert Judgment

These are revenue projections created by a person or people “in the know.” The key is to find the right person or people. A knowledgeable department head, for instance, can be a great source of revenue estimation for the key revenues supporting his/her department.

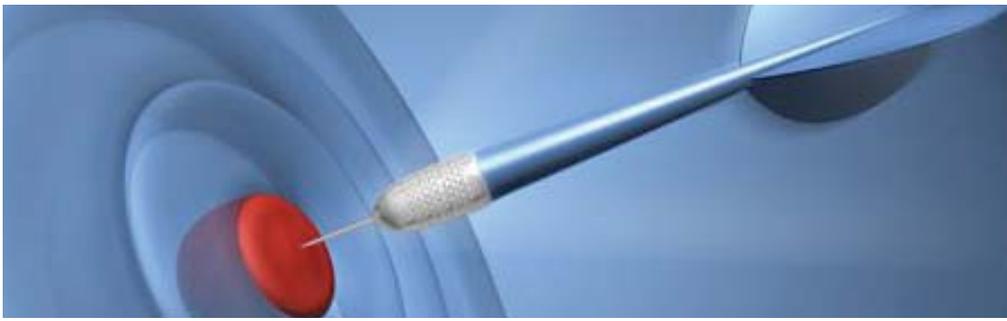
While this type of forecasting is generally easy and inexpensive, it carries one major drawback: the expert carries the projection “model” in his/her head. If the expert leaves, you will have difficulty replicating the forecasts in the future.

Estimates Created by Others

This is a subtype of Informed/Expert Judgment forecasting. A city or county can often look to state forecasting, for instance, of major revenue streams, like sales tax, to inform their own estimates.

Deterministic Techniques

These are formula-driven forecasts, where you may know all of the pieces of the forecast or enough of them to make an informed estimate. Real property taxes and Community Development Block Grant allocations are examples.



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Approaches, cont'd.

Time Series Techniques

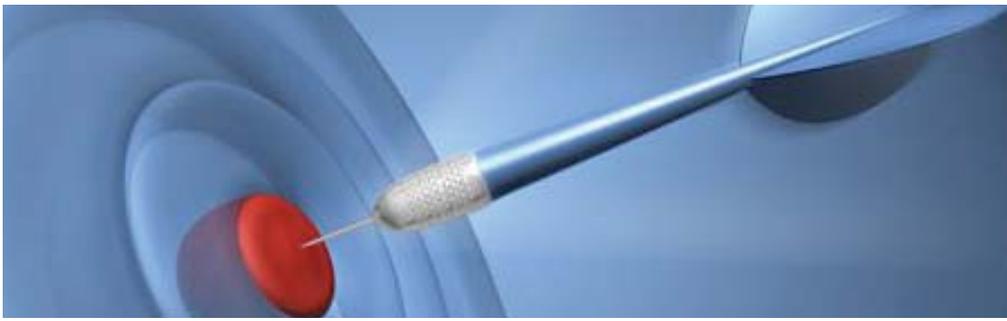
It is often reasonable to base forecasts of future collections on results from the past. If you plot revenue collections over time and the plot generates a straight line, a reasonable forecasting approach might be to simply carry that trend forward. For trends with a relatively constant *rate* of growth, you might consider calculating a compound annual growth rate to inform your estimate.

Econometric Techniques

A type of time series analysis, econometric techniques, such as regression analysis, can help explain which variables influence your revenue stream—positively or negatively. One of the challenges of this approach is that it is relatively sophisticated. Another is that the output of a regression analysis is more reliable with a large number of data points. A deep data set is often a challenge when working with annual figures.

SWAG

Super Wild A** Guess. Sometimes you just don't have any other avenue for creating a forecast. Examples might include a brand new revenue stream or the outcome of a court judgment.



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Using Spreadsheets to Forecast and Track Revenues

Example 1

Simple Budget to Actual Tracking

- Works well for revenues with consistent collections throughout the year
- Provides a basis for budget forecasting

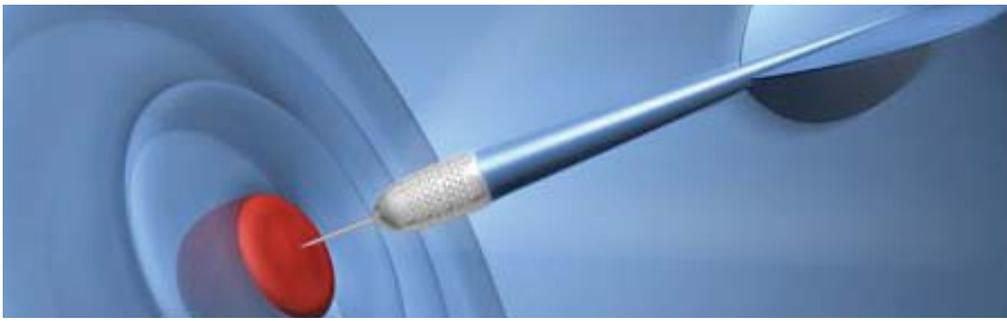
Example 2

Budget to Actual Tracking Using Year-to-Date Comparisons

- Works well for revenues with seasonal fluctuations
- Provides a basis for budget forecasting

Download templates at:

columbiacapital.com/gfoa11.zip



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Group Exercise

Background

It's Friday night. The City's budget director has suffered a terrible nail clipper accident and has been taken by Life Flight to BJC Hospital in St. Louis. You get a call at home from the Mayor: you are now responsible for producing the budget. By Monday. Unfortunately, it's the weekend of the big Mosquito Festival and anyone that knows anything about the City's annual budget will be staffing the festival. The only resources you'll have to go on are the notes left by the budget director on his desk and your own budget savvy.

Task

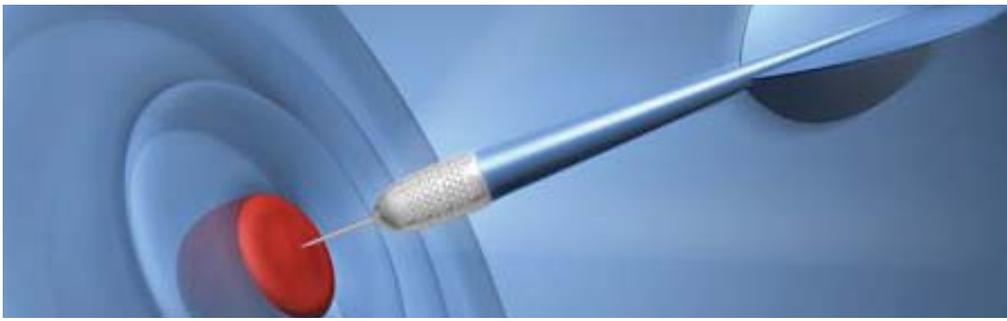
Each group will be responsible for completing the Forecasting Sheet using a consensus decision-making process, based upon the information provided. Tell us what your FY12 projection is for each revenue source *and* how/why you reached it.

Rules

Each group should quickly find a quiet corner to work, away from the other groups. Please don't share information or communicate with other groups until we report-out after the exercise.

Timing

- 5 minutes to find a place to work
- 20 minutes to complete your work
- 5 minutes to reconvene in the main room



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Forecasting Sheet (FY12)

Property Tax

FY09 Act.	FY10 Act.
\$1,526,789	\$1,632,894

FY12 Forecast	
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FY11 Budget	FY11 (6 mo. Actual)
\$1,750,000	\$356,001

Sales Taxes

FY09 Act.	FY10 Act.
\$1,213,700	\$1,040,078

FY12 Forecast	
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FY11 Budget	FY11 (6 mo. Actual)
\$1,071,000	\$657,667

Franchise Fees

FY09 Act.	FY10 Act.
\$356,789	\$399,998

FY12 Forecast	
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FY11 Budget	FY11 (6 mo. Actual)
\$450,000	\$231,480

Revenue Sharing

FY09 Act.	FY10 Act.
\$601,334	\$599,677

FY12 Forecast	
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FY11 Budget	FY11 (6 mo. Actual)
\$750,000	\$137

Water Fees

FY09 Act.	FY10 Act.
\$775,540	\$734,901

FY12 Forecast	
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FY11 Budget	FY11 (6 mo. Actual)
\$800,000	\$397,559