MAKING THE BUDGET FIT

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Forecast5 Analytics
Financial Projection Perspectives

“The ability to think strategically may be one of the most important legacies of a public official.”


A multi-year financial forecast is more than just a spreadsheet – it is a strategic process and operational tool.
Financial Projection Perspectives

Attest – to the long term financial benefits and strategic planning value that projections provide

Confirm – that the process of executing a financial projection, along with the data generated, provide increased financial vision and improve administrative decision making and board level governance

Witness – improved relationships between local governments and communities through increased transparency and accountability that financial projections provide

Confident – about the decision making value points of organizing information and strategic thoughts into a multi-year operating plan that aligns resources and priorities
Emerging Variables Impacting your Community College…

Accreditation standards
Community expectations
Transparency & accountability
Enrollment & demographics
Operational costs
K-12 Education
Economic conditions
Family situations
Innovations & quality
Student expectations & advocacy
Collective bargaining
Leadership development and succession planning
Maintenance and space utilization
Student loan debts
Technology waves
State & federal law/policies
Diversity & equity issues
Workforce trends
For- & non-profit colleges

FORECAST5
ANALYTICS
“Create strategies to provide deeper analysis”

Analysis – “Data mining”
Projection – “Forecasting”
Scenario Management – “What if”

Historical G/L
“Old”-Existing Account Code Detail

Current Budget Year

Projected G/L
“New” – Existing Code w/ added Detail/Dimensions

Breaking Down a Multi-Year Projection

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**Decision/Analysis Bands**

- **Historical Performance (Prior Years)**
  - Measurement of performance
  - Informs future assumptions

- **Budgetary Level Accuracy (Current Year, Years 1 & 2)**
  - Executable budget template
  - Rev./Exp. variables known

- **Early Warning (Year 3)**
  - Inflection point for change decisions

- **Directional (Years 4 & 5)**
  - Evaluate overall financial trend – “How the math will play out”

**Measurement of performance**
Informs future assumptions

**Executable budget template**
Rev./Exp. variables known
What about the issue of unpredictable revenues?

**Best – Educated Estimates for Key Revenue Streams**

**Decision Band Approach – Establish Ranges for “What if” scenarios**

**Organizational Vision Statement/Position – “Where we want to go”**

**Financial Gap Analysis** – “We need $___ to support the visionary level of programming and services; Communication Tool for Stakeholders; potential infrastructure/staffing requirements”
Financial Projection Impact Considerations

Economic trends at national, state, and local levels

Future impact of significant legislative changes to funding formulas, or other mandates

Long term impact of salary/benefit agreements, or other employment contracts

Short and long-term capital plans/needs
Situational Observations

• Simply extending a “current” policy may not be accurate if economic fundamentals do not allow current policy to be executed.
  • “Past performance is not indicative of future results.”
  • Historical performance can provide insight to the overall management of a community college.
  • Direction of the trend can be telling in terms of viability of the future projection or plans.

However, it is the accuracy of the forward looking assumptions that are most relevant to a college’s sustainability.
Using Financial Projection Modeling

<table>
<thead>
<tr>
<th>Budget Decisions</th>
<th>Role of Financial Projection</th>
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<tbody>
<tr>
<td>Accomplishing organizational goals</td>
<td>To demonstrate affordability of funding strategies to accomplish long-term goals</td>
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<tr>
<td>Tax rate adjustments</td>
<td>To provide revenue impacts of alternative rate adjustments beyond the budget year</td>
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<tr>
<td>Creating new positions</td>
<td>To demonstrate affordability of adding new positions</td>
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<tr>
<td>Approving salary and wage adjustments</td>
<td>To demonstrate affordability of annual pay increases, including adjustments</td>
</tr>
<tr>
<td>Changing benefit packages</td>
<td>To demonstrate affordability of benefit changes</td>
</tr>
<tr>
<td>Analyzing retirement incentives</td>
<td>To support adoption of early retirement programs including succession planning</td>
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<tr>
<td>Analyzing changes in service delivery</td>
<td>To anticipate long-term results on program reduction or expansion</td>
</tr>
<tr>
<td>Approving capital replacement and infrastructure maintenance</td>
<td>To support analysis of financing options for ongoing capital replacement and maintenance, including one-time purchases and lease-purchase financing</td>
</tr>
<tr>
<td>Analyzing alternative methods of providing services</td>
<td>To support service delivery options of privatization and managed competition</td>
</tr>
<tr>
<td>Adopting capital improvement programs</td>
<td>To show how capital improvement plans will affect the operating budget</td>
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</table>
Bond Rating agencies use four broad categories in assigning a bond rating to tax-supported bonds:

1. The economic base of the community
2. The financial condition of the local government
3. Debt factors on existing and proposed debt
4. Governance and **financial planning** of the organization

   - Rating agencies evaluate the financial practices of a local government in the following areas:

   - Revenue/Expenditure assumptions
   - Enrollment trends
   - Budget amendments and updates
   - Long-term financial planning/capital planning
   - Investment management policies
   - Debt management policies
   - Reserve (fund balance) policy
How do you effectively communicate the impact of resources and restrictions on your strategic plan?
Projection Assumptions

- Should be guided by principles-based approach
  - Consistent with each other
  - Disclosure is a key element for the reader in order to ascertain the overall strength of the entity and viability of any future plans.
  - Best managed entities understand and calculate the impact of potential variances in key assumptions.
- Top-down or bottom-up assumptions. Incorporate assumptions at any level of accounting detail.
- Gain insight by utilizing historical data for forward looking assumptions
- Propagate assumptions with line item control
Data Visualization and Reporting

Charting to visualize assumptions
Charting results/analysis and send graphics to report builder
Tabular results with ad-hoc table builder and export to Excel
## Fund 11 (Unrestricted General Fund)

### Fund Balances Unrestricted

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<tbody>
<tr>
<td>Fund Balance - Beginning</td>
<td>6,524,939</td>
<td>4,780,361</td>
<td>3,378,693</td>
<td>3,497,390</td>
<td>4,300,578</td>
<td>6,542,560</td>
<td>8,802,964</td>
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<tr>
<td><strong>Revenue</strong></td>
<td></td>
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<tr>
<td>Student's Fees</td>
<td>480,732</td>
<td>581,305</td>
<td>1,061,305</td>
<td>1,061,305</td>
<td>1,061,305</td>
<td>1,061,305</td>
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<tr>
<td>Tuition</td>
<td></td>
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<tr>
<td>Credit</td>
<td>10,583,491</td>
<td>9,724,227</td>
<td>10,103,472</td>
<td>10,507,610</td>
<td>10,927,914</td>
<td>11,365,030</td>
<td>11,819,631</td>
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<td>Non Credit</td>
<td>2,416,593</td>
<td>2,312,240</td>
<td>2,393,155</td>
<td>2,476,902</td>
<td>2,563,580</td>
<td>2,653,292</td>
<td>2,746,144</td>
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<td>High School</td>
<td>1,770,292</td>
<td>1,923,233</td>
<td>1,923,233</td>
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<tr>
<td>Local Support</td>
<td>2,020,034</td>
<td>2,063,089</td>
<td>2,124,982</td>
<td>2,188,731</td>
<td>2,254,393</td>
<td>2,322,025</td>
<td>2,391,686</td>
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<td>State Support</td>
<td>10,004,236</td>
<td>10,339,632</td>
<td>10,188,430</td>
<td>10,339,615</td>
<td>10,493,068</td>
<td>10,648,822</td>
<td>10,806,913</td>
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<tr>
<td>Sales and Services</td>
<td>65,919</td>
<td>62,933</td>
<td>62,933</td>
<td>62,933</td>
<td>62,933</td>
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<tr>
<td>Other Income</td>
<td>2,868,713</td>
<td>3,773,834</td>
<td>3,273,834</td>
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<tr>
<td><strong>Revenue Totals</strong></td>
<td><strong>30,218,837</strong></td>
<td><strong>30,515,853</strong></td>
<td><strong>31,166,703</strong></td>
<td><strong>31,869,523</strong></td>
<td><strong>32,595,620</strong></td>
<td><strong>33,345,834</strong></td>
<td><strong>34,121,038</strong></td>
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<td><strong>Expenditures</strong></td>
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<td>Salaries</td>
<td>20,244,974</td>
<td>20,656,549</td>
<td>20,656,549</td>
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<td>21,146,784</td>
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<td>Benefits</td>
<td>5,880,482</td>
<td>5,038,758</td>
<td>5,057,087</td>
<td>4,344,390</td>
<td>4,554,525</td>
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<tr>
<td>Services</td>
<td>4,401,423</td>
<td>3,999,800</td>
<td>3,999,800</td>
<td>3,999,800</td>
<td>3,999,800</td>
<td>4,031,222</td>
<td>4,031,222</td>
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<tr>
<td>Materials, Supplies</td>
<td>1,078,190</td>
<td>1,161,354</td>
<td>1,161,354</td>
<td>1,161,354</td>
<td>1,161,354</td>
<td>1,161,354</td>
<td>1,161,354</td>
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<tr>
<td>and Travel</td>
<td>341,232</td>
<td>185,645</td>
<td>185,645</td>
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<tr>
<td><strong>Expenditures Total</strong></td>
<td><strong>31,963,415</strong></td>
<td><strong>31,917,521</strong></td>
<td><strong>31,048,006</strong></td>
<td><strong>31,066,335</strong></td>
<td><strong>30,353,638</strong></td>
<td><strong>31,085,431</strong></td>
<td><strong>31,085,431</strong></td>
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<tr>
<td><strong>FY Year Change</strong></td>
<td><strong>($1,744,578)</strong></td>
<td><strong>($1,401,668)</strong></td>
<td><strong>$118,697</strong></td>
<td><strong>$803,188</strong></td>
<td><strong>$2,241,982</strong></td>
<td><strong>$2,260,404</strong></td>
<td><strong>$3,035,608</strong></td>
</tr>
<tr>
<td><strong>Fund Balance - Ending</strong></td>
<td><strong>$4,780,361</strong></td>
<td><strong>$3,378,693</strong></td>
<td><strong>$3,497,390</strong></td>
<td><strong>$4,300,578</strong></td>
<td><strong>$6,542,560</strong></td>
<td><strong>$8,802,964</strong></td>
<td><strong>$11,838,572</strong></td>
</tr>
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</table>

### Financial Projections – Communications Tool

**Resident Tuition Rate**

- FY 2015: $145
- FY 2016: $170
- FY 2017: $170
- FY 2018: $170
- FY 2019: $170
- FY 2020: $170
- FY 2021: $170
Thank you for your time!

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