Creating Financial Sustainability over the Long-Term

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Many city Finance Directors routinely do a five-year forecast of the years ahead. Most will say that the further out you look, the less reliable their data. In any case, it doesn't matter a lot because we budget a year at a time, assuming that the coming year will look a lot like the last ones, which it might.

Or there might be a recession. Or pension and retiree medical costs might spike. Or other high-cost decisions might significantly widen the gap between expenses and revenues.

Now more local governments are creating financial forecasts for the decade ahead to understand true costs of their obligations and prepare for the inevitable future economic downturns. And it is no longer true that estimates for the "out years" is markedly less good than next year; the advent of modern information technology tools tempers the instinct to not look 10 years into the future.

Indeed, a robust forecast can show elected officials and the public how reasonable assumptions about future inflation, pay increases, new debt, rising near-term pension costs, and other expenditure and revenue changes will affect their government's finances — not just next year, but far into the future.

Taking an honest look at where a city or county is headed financially allows leaders to figure out strategies to rebuild financial reserves; pay for needed upgrades to technology, equipment and facilities; and maintain or improve service to the public.

The most useful long-term financial forecasts look at key variables such as payroll growth, pension rates, property taxes and sales taxes to create a forecasting model specific to each community. The model can be used to show the impact of boosting service levels or adopting labor proposals, restoring deferred infrastructure spending and internal service contributions for long-term sustainability, long-term consequences of absorbing pension and health costs, and other factors unique to a local government.

With a sophisticated long-term forecast that accounts for all revenue and expenditure variables, one can start with the current base year which reflects a continuation of current revenues and service levels. Working from this base, a good forecasting model can enable users to try out alternative scenarios, including the impact of the recession that is sure to happen in the future. By "playing with" different scenarios, the forecasting model can help local government decision-makers build up reserves in good times and assure elected officials and the community that your agency is financially sustainable.

Some local government officials are taking the model to their elected representatives, to help them understand fiscal challenges and the effects of different budget strategies on financial sustainability. A workshop using a good model like this is a crucial step in convincing that elected officials, employee groups and tax-watchers that your stewardship of local finances is intelligent and trustworthy.