

# REVENUE FORECASTING

GFOAZ BUDGET FORUM  
OCTOBER 26<sup>TH</sup>, 2023  
CHANDLER, AZ

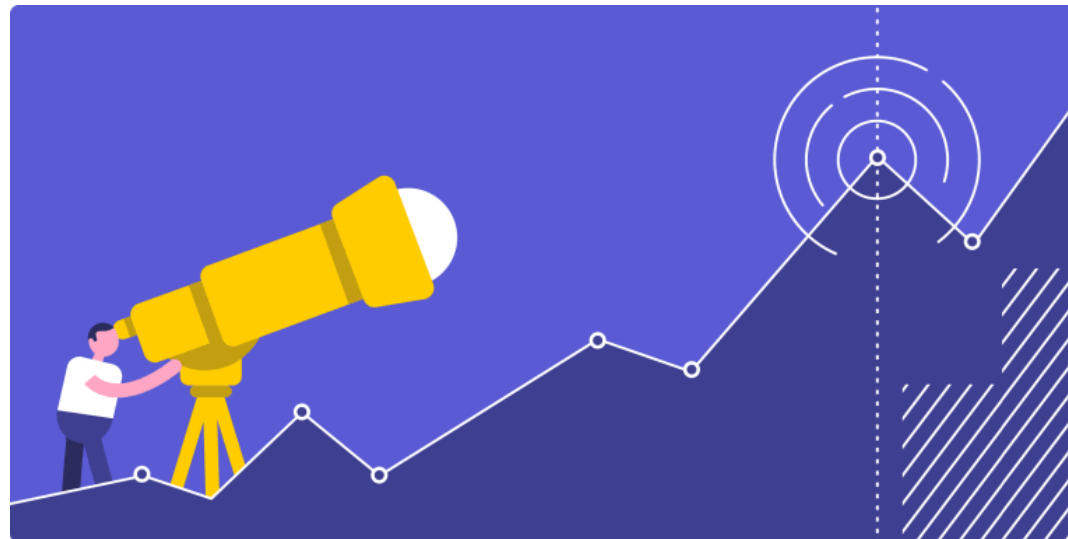
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# Presentation Overview

- *Purpose & Financial Principles*
- *Overview of Forecast Development*
- *Economic & Legislative Uncertainty*

# Why Do We Forecast?

- Provide expenditure and revenue forecast information to assist in managing the City's short- and long-term financial resources
- Desired Outcome:
  - *Stakeholders receive accurate and timely forecast information*



# Financial Principles

## General Governmental Funds

- Balanced net sources and uses
- 10%-15% reserve fund balance
- Sustainability of programs and services
- Keep wages and benefits competitive
- Investment in capital and lifecycle replacement projects

## Utility Fund

- Balanced net sources and uses
- 20% or higher reserve fund balance
- Rate adjustments that are predictable and smoothed throughout the forecast
- Equity between residential and non-residential rates
- Affordable utility services

# Overview of Forecast Development

- City of Mesa adopts a “conservative” forecast approach as opposed to an “objective” forecast approach
- Drivers of major revenue sources for the City are largely out of the City’s direct control
  - *Economic conditions (inflation, sales tax, income tax)*
  - *Climate conditions (water and electric utility usage)*
- A conservative approach improves the City’s ability to respond to unexpected events

# Major Revenue Sources



## General Governmental Revenues

City Sales Tax, State Shared Sales Tax, Urban Revenue Sharing & Vehicle License Tax



## Transportation-Related Revenues

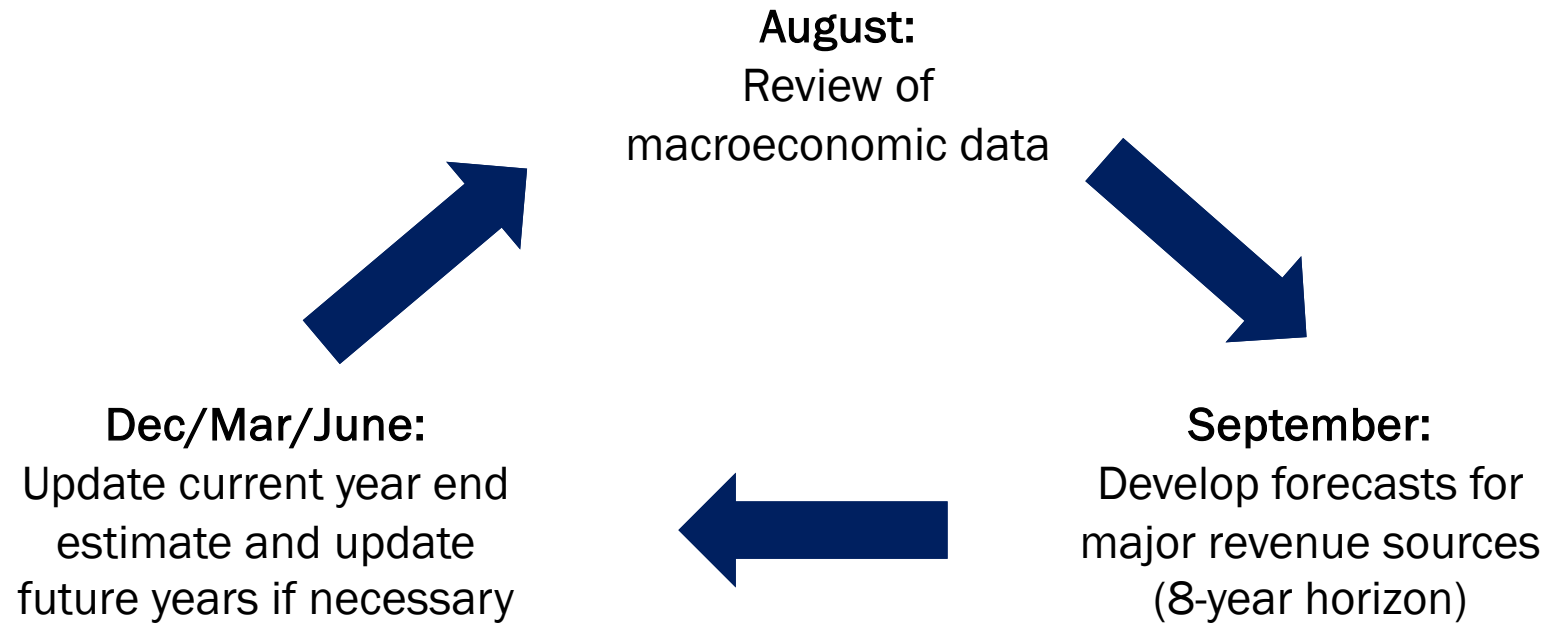
City Sales Tax & Highway User Revenue Fund



## Utility Revenues

Water, Wastewater, Solid Waste, Natural Gas, Electric

# Timeline of Revenue Forecast Development



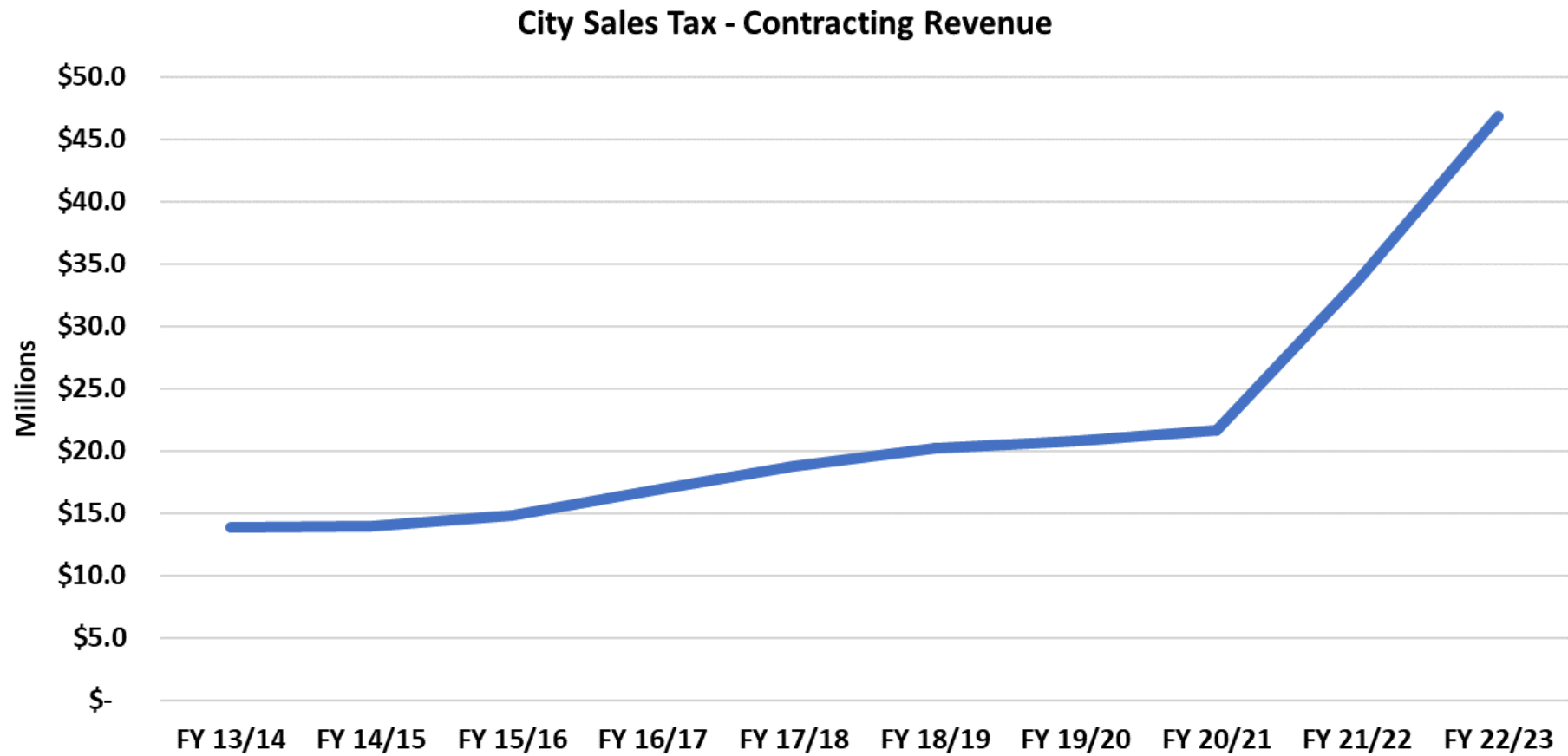
# FORECAST DEVELOPMENT *SCIENCE & ART*

# Understand your data

- Create institutional knowledge
  - *Observe/Analyze*
  - *Share/Dialogue*
  - *Document*
- Identifying changes in the forecast fundamentals
  - *Population, employment, inflation growth*
- Growth patterns in various parts of the City
  - *Solid Waste: citywide service area*
  - *Natural Gas: about half the City of Mesa and a portion of San Tan Valley*
  - *Electric: about 5 square miles in downtown Mesa*

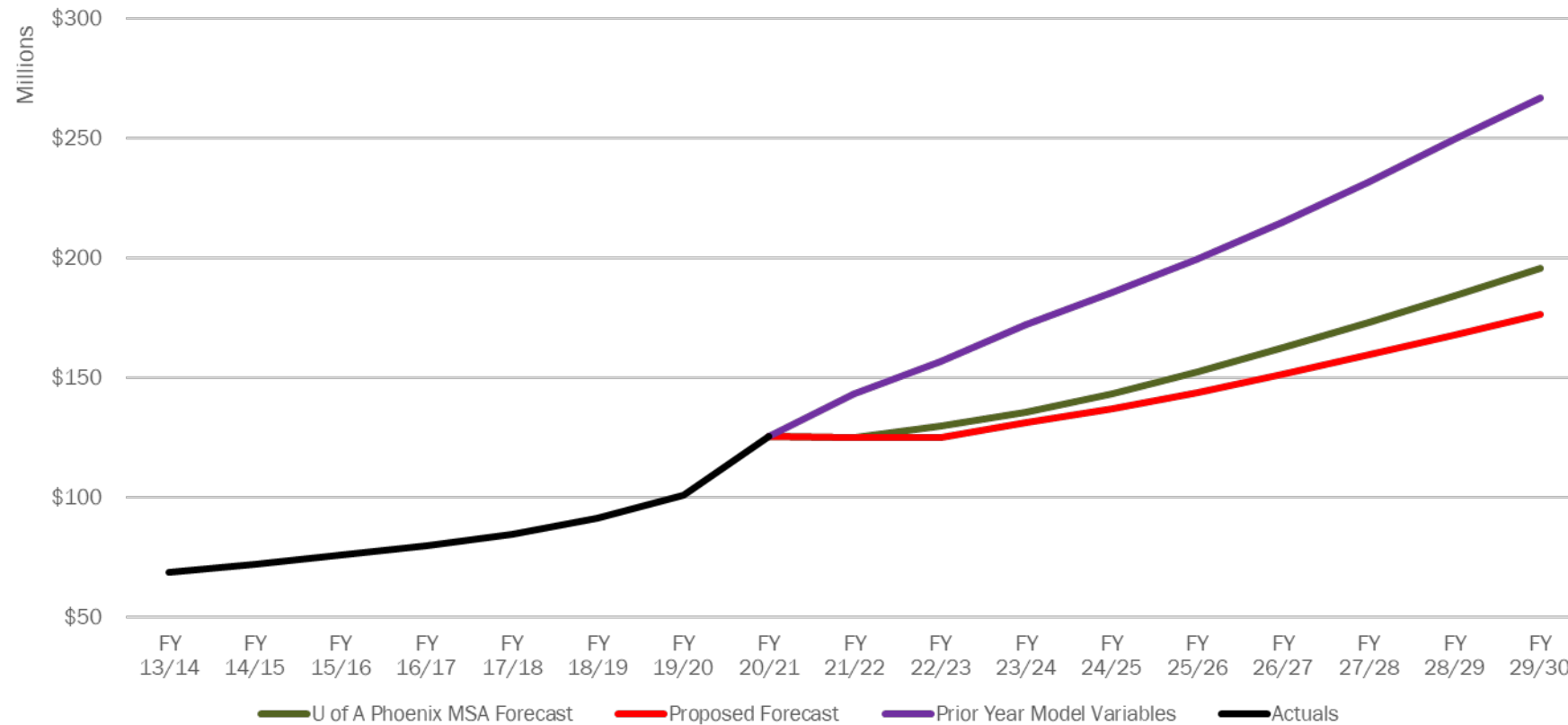


# Understanding Trends



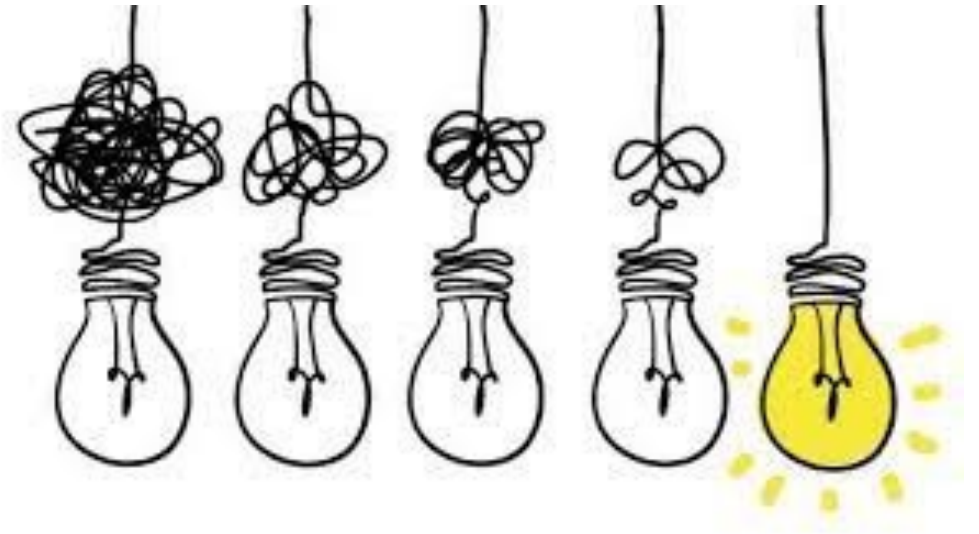
# City Sales Tax Forecast - Retail

- Sometimes econometric models can yield unrealistic results that need to be adjusted



# Keep it simple

- Complex methods does not mean better
  - *Who is your audience?*



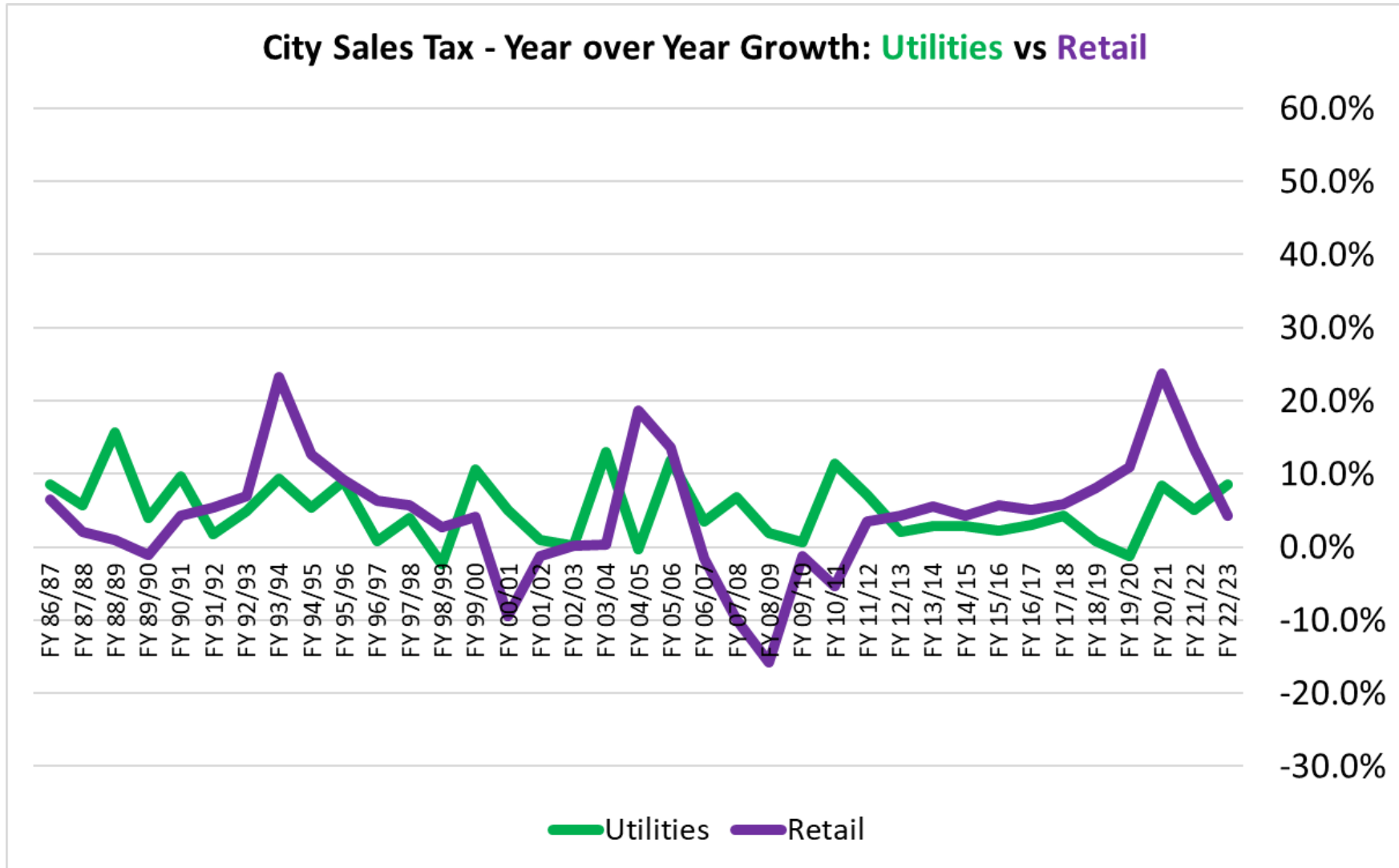
# ECONOMIC UNCERTAINTY & LEGISLATIVE CHANGES

# How to Incorporate Economic Uncertainty into the Forecast

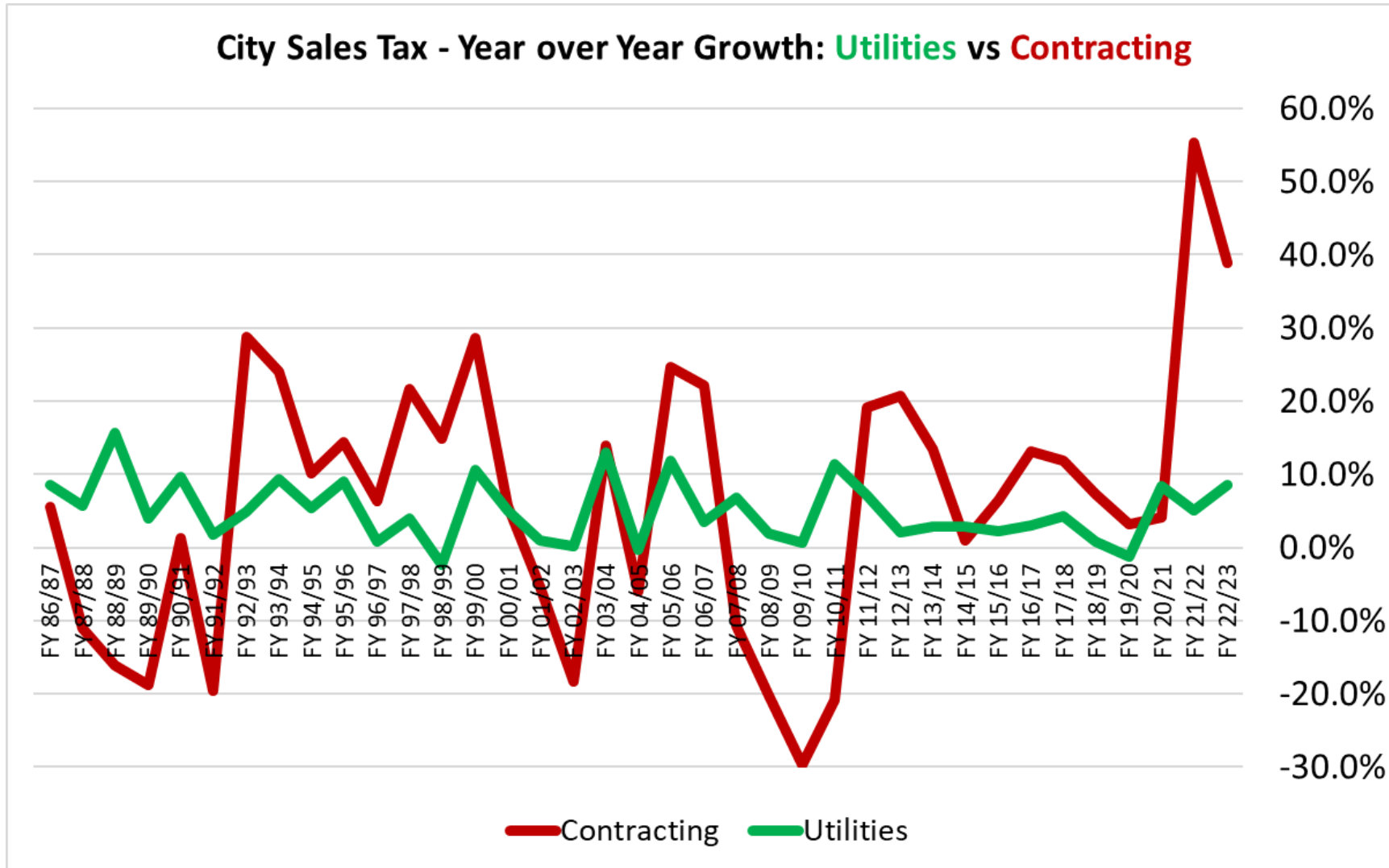
- Macroeconomic conditions are out of the direct control of the City
- A conservative approach may mean including an economic correction/recession into the forecast horizon
- Legislative changes
  - *Flat Tax*
  - *Residential Rental Tax*



# Sales Tax Volatility by Category



# Sales Tax Volatility by Category



# Legislative Changes

- Scoring the impact of Legislative Changes
  - *Review existing data*
  - *Look for estimates from other organizations (League, JLBC, etc.)*
  - *Be explicit about assumptions with management*
  - *Consider volatility of revenue source*
  
- Examples:
  - *Residential Rental Sales Tax*
    - Use of existing business code
  - *State Income Flat Tax*
    - Review of analysis from JLBC or other sources

# Takeaways for Economic and Legislative Uncertainty

- Understand the impact of prior recessions
- Communicate assumptions used for estimates
- Run scenarios to understand potential future impact

# CONCLUSION

# Putting It All Together

	Adopted Budget FY 18/19	Actuals FY 18/19	Difference FY 18/19
Beginning Reserve Balance	\$ 92,323,382	\$ 100,432,000	\$ 8,108,618
Total Sources	\$ 432,534,000	\$ 448,145,000	\$ 15,611,000
Total Uses	\$ 450,251,000	\$ 458,101,000	\$ 7,850,000
Net Sources and Uses	\$ (17,717,000)	\$ (9,956,000)	\$ 7,761,000
Ending Reserve Balance	\$ 74,606,382	\$ 90,476,000	\$ 15,869,618

# Conclusion

- Forecast credibility can improve over time when there are performance measures to emphasize accuracy
- Establish regular on-going processes for reporting revenues and financial forecasts
- Taking a conservative approach to revenue and expense forecasting helps manage risk



QUESTIONS?



THANK YOU!