Forecasting

Principles and Methods

- Know what variables influence what you are forecasting
- Know the risks of over or under forecasting
- Communicate

Know Your Variables

- Examples
  - Prior actuals and historic trends
  - Overall economy
  - Single Family Homes
  - Commercial development
  - Organization priorities
  - Changes in policy

Risks

What would happen if you overforecast?

What would happen if you underforecast?

How can we mitigate risks?

Mitigating Risk

- Identifying one-time versus on-going resources
- Be slightly more conservative in forecasting
- Be transparent

Example 1 – Retail Sales Tax

- Variables – Prior Year actuals, overall health of the economy
- Method
  - Prior year actuals with assumptions for sales tax growth from JLBC
  - Do not include anticipated new developments
- Risk – High
  - Does not have the variation of other categories like construction, but is the single largest revenue source
  - 1% change can have a significant impact on available resources
  - Mitigating Risk – categorizing a portion as one-time for funding capital projects

Example 2 – Development Related Revenues

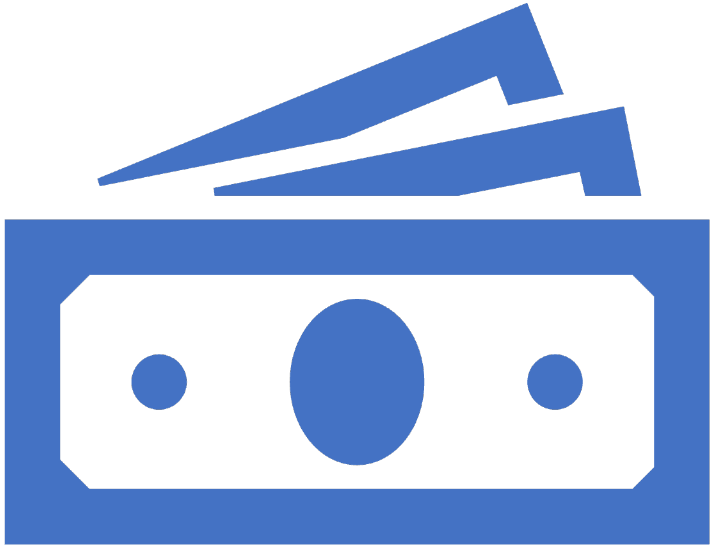
- Variables – single family homes, commercial development, and health of the economy
- Method – Work with planning on forecast of single-family homes, discount
- Risk – High
  - Mitigating risk – most development related revenues categorized as one-time for capital. Discount projections from Development Services Department

Example 3 – Public Safety Personnel Retirement System

- Variables - # of members, investment growth
- Method – trend analysis, assuming higher growth in contribution rates
- Risk – Medium
  - Mitigating Risk – Budget all PSPRS eligible positions at tier 1 & 2 rates

Communicate

- Document methodologies
- Communicate regularly
- Communicate how actuals compare to forecast
- Let City Management know the assumptions included in your forecast
- If you cannot concisely explain your method, it might be too complicated



Other Tips

- Create a full financial picture
- Look at all funds