



## FORECASTING

### PURPOSE

To assess the range of choices available to budget decision makers when determining how to allocate resources, this policy establishes guidelines for evaluating revenue sources and the requirement to determine an expenditure strategy as part of the annual budget process and longer range fiscal planning. Forecasting helps local officials understand the long-range implications of pending near-term decisions.

### APPLICABILITY

This policy applies to the Board of Selectmen, Town Administrator and Finance Committee as Hubbardston's budget decision makers. It also applies to the job responsibilities of all revenue generating department heads.

### POLICY

#### A. Revenue Guidelines

The Town will continually seek to diversify its revenue to improve the equity and stability of sources. Each year and whenever appropriate, the Town will reexamine existing revenues and explore potential new sources. A balance will be sought between elastic and inelastic revenues to minimize any adverse effects caused by inflation or other economic changes. Additionally, intergovernmental revenues (e.g., local aid, grants) will be reviewed annually to determine their short- and long-term stability in order to minimize detrimental impacts.

The Town will avoid using one-time revenues to fund ongoing or recurring operating expenditures. These one-time revenue sources can include, but are not limited to, free cash, overlay surplus, sale of municipal equipment, legal settlements, insurance proceeds, and gifts. Additionally, the Town hereby establishes the following priority order when appropriating one-time revenues:

- 1.) Snow and ice deficit
- 2.) Cash capital budget
- 3.) General Stabilization Fund
- 4.) Municipal Capital Stabilization Fund

Economic downturns or unanticipated fiscal stresses may compel reasonable exceptions to the use of one-time revenue. In such cases, the Town Administrator, in consultation with the Finance Committee, can recommend to Town Meeting its use for operational appropriations. Such use will trigger the Town Administrator to develop an action plan to avoid continued reliance on one-time revenues.

Historically, bond premiums (net of issuance costs) have been considered general one-time revenue to be used as an available source. [Chapter 218 of the Acts of 2016](#) (Municipal Modernization Act) amends current law by allowing communities to either apply the proceeds to the issuance, thereby reducing the amount needed to borrow, or to place the money in a separate fund and appropriate it for a future capital project. (Note: Premiums received for excluded debt must still be used to offset the stated interest costs of financing the project.)

State laws impose further restrictions on how certain types of one-time revenues may be used. The Town will consult the following General Laws when the revenue source is:

- Sale of real estate: [M.G.L. c. 44, §63](#) and [M.G.L. c. 44, §63A](#)
- Gifts and grants: [M.G.L. c. 44, §53A](#) and [M.G.L. c. 53A½](#)

This policy further entails the following expectations regarding revenues:

- The Assessing Department will maintain property assessments for the purpose of taxation at full and fair market value as prescribed by state law.
- Town departments that charge fees shall annually review their fee schedules and propose adjustments when needed to ensure coverage of service costs.
- The Building Department will notify the Town Administrator of any moderate-to-large developments that could impact building permit volume.
- Department heads will strive to be informed of all available grants and other aid and will carefully consider any related restrictive covenants or matching requirements (both dollar and level-of-effort) to determine the cost-benefit of pursuing them.
- Revenue estimates will be adjusted throughout the budget cycle as more information becomes available.

#### B. Expenditure Guidelines

Annually, the Town will determine a particular budget approach for forecasting expenditures, either maintenance (level service), level funded, or one that adjusts expenditures by specified increase or decrease percentages (either across the board or by department). A maintenance budget projects the costs needed to maintain the current staffing level and mix of services into the future. A level- funded budget appropriates the same amount of money to each municipal department as in the prior year and is tantamount to a budget cut because inflation in mandated costs and other fixed expenses still must be covered.

Under any chosen approach, expenditure projections will include potential cost-of-living adjustments to account for future contract settlements and compensation plan increases.

#### C. Financial Forecast Guidelines

To determine the Town's operating capacity for each forthcoming fiscal year, the Town Administrator shall annually prepare a five-year financial projection of revenues, expenditures and debt service. These forecasts shall be used as planning tools in developing the following year's operating budget as well as the five-year capital improvement plan.

To ensure the Town's revenues are balanced and capable of supporting desired levels of services, forecasts for property taxes, local receipts, and state aid shall be conservative based on historical trend analyses and shall use generally accepted forecasting techniques and appropriate data. To avoid potential revenue deficits, estimates for local receipts (e.g., inspection fees, investment income, license fees) should generally not exceed 90 percent of the prior year's actual collections without firm evidence that higher revenues are achievable. In order to achieve the 90 percent estimate, the Town Administrator shall create a five year plan to reduce revenue estimates to the 90 percent level.

Additionally, the Town's forecast model should assume that:

- Current service levels will provide the baseline projections
- Property taxes (absent overrides) will grow at the limits of Proposition 2½
- New growth will be projected conservatively, taking into account the Town's five-year average by property class
- State net school spending requirements will be annually met or exceeded
- Local receipts and state aid will reflect economic cycles
- Historical trends in the growth of operating expenses and employee benefits
- Estimated cost-of-living adjustments of future contract settlements and compensation plan increases
- Debt service on existing debt will be paid and Capital Planning and Debt policies will be followed
- Reserves will be built and maintained in compliance with its Financial Reserves policy

## REFERENCES

[Chapter 218 of the Acts of 2016 M.G.L. c. 44, §63](#)

[M.G.L. c. 44, §63A](#)

[M.G.L. c. 44, §53A](#)

[M.G.L. c. 53A½](#)

[M.G.L. c. 44, §20](#)

Hubbardston Debt Policy

Hubbardston Financial Reserves Policy

Hubbardston New Growth Policy

Division of Local Services Best Practice: [Revenue and Expenditure Forecasting](#)

Division of Local Services Bulletin 2013-01B: [Bond Premiums and Debt Exclusions](#)

Government Finance Officers Association article: [Structuring the Revenue Forecasting Process](#)

Division of Local Services IGR 17-21 Borrowing

**EFFECTIVE DATE**

This policy was adopted November, 2018.

