

## **Session**

### **Forecasting In Uncertain Times**

#### **Moderator**

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#### **Speakers**

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### **Scenario Planning In Rochester MN**

- I. Uncertain Times in Rochester MN
  - A. Impact of Economic downturn
  - B. Political Environment
  - C. Uncertainty of revenue stream
- II. Scenario planning defined
- III. Why and when to use scenario planning
- IV. Our success story
- V. Process
  - A. Determine change drivers
  - B. Determine what we call “stake in the ground”
  - C. Define 3 – 5 scenarios with magnitude of change of each driver
  - D. Determine key actions
  - E. Prioritize activities
- VI. Constantly monitor
- VII. Keys to success/failure
  - A. Communication to stakeholders and employees
  - B. Lessons learned
  - C. Engage everyone to be proactive participants

### **Forecasting Experience in Milwaukee County**

- I. Uncertain Times in Milwaukee County
  - D. Structural Deficit
  - E. Economic Downturn
  - F. Political Environment
  - G. Credibility Gap
  - H. Budget Reduction Fatigue
- II. Milwaukee County has struggled to close structural budget deficit for ten years. Structural deficit driven by unfunded pension liability, employee/retiree health care expenses, flat state and federal revenues.
- III. Impacts of the Economic Downturn
  - A. Larger unfunded pension liability
  - B. 10% decline in sales tax collections
  - C. Major declines in real estate transfer fees, earnings on investments and other revenues.
- IV. Political Environment
  - A. Low levels of trust
  - B. High levels of partisanship/interest group involvement
  - C. Intense public scrutiny
- V. Credibility Gap – Multiple Reviews of County Finances
  - A. Reality (Gloom and Doom) Tour
  - B. Greater Milwaukee Committee Task Force
  - C. Governor’s Task Force
  - D. Public Policy Forum

- VI. Goal of the forecasting initiative was to develop a forecasting tool seen as credible by stakeholders inside and outside of County government.
- VII. Process is Important
  - A. Created a diverse work group with representatives for the County Executive, County Board, key departments and outside experts.
  - B. Painstaking review of data input into the model and assumptions for future years
  - C. Consensus based baseline scenario
  - D. "What-if" analysis capabilities to review policy options.
- VIII. Defined the "Policy Neutral" Structural Deficit
  - A. Assumed no changes in policies, programs or staffing.
  - B. Data-based forecast of changes in revenues and expenditures.
  - C. Assumed each annual budget balanced with one-time fixes.
  - D. Analyze alternative scenarios using "What-if" capabilities.
- IX. Highlighted Good and Bad News in Presentations
- X. Developed Gap Closing Strategies
  - A. Wage & Benefit Reform
  - B. Service Delivery Reform
  - C. Use of Assets and Borrowing Capacity
  - D. Budget Process Reform
- XI. Key Points
  - A. Developing a forecast that is used requires consensus.
  - B. Transparency is critical and requires more time.
  - C. De-politicize the forecast by making it policy neutral.
  - D. Use the process to build relationships and enhance credibility.

### **Transparency In Public Budgeting**

- I. Stress on budgeting systems
  - A. Great Recession and the decline of public revenues
  - B. Hidden fiscal problems and structural deficits revealed
  - C. Across the board cuts are popular, but fail to examine revenue
  - D. Setting budget priorities tends to focus on spending side alone
  - E. The limitations of traditional revenue structures are apparent
  - F. State and local governments are rethinking revenue plans
- II. Revenue structures
  - A. Revenue streams are governed by growth in business activity, property values, and income levels ---- this is a restriction that may run counter to service levels.
  - B. More sources should be linked to government service levels ( fee for service)
  - C. Long term financial planning should include a reexamination of revenue structures and not just multi-year revenue projections.
  - D. Is the current tax and fee structure sustainable over time?
- III. Revenue budget presentations
  - A. As much attention should focus on how money is raised as is focused on how it is spent, but this is not the case in most jurisdictions.
  - B. Too often the revenue budget presentation is limited to a forecast regarding how much will be raised from each source (type of revenue) with historical information added for context.
  - C. Better information is needed on tax collections by household income levels (and per capita) and according to property values.
  - D. Need to relate the dollar amount collected to the dollar value of benefits received (distribution of the tax burden).
  - E. Tax expenditures should be reviewed on a regular basis and subject to change as needed with consideration focused on the beneficiary groups.
- IV. Implications for decision maker
  - A. Elected leaders would have better information to assist them with taxing and spending choices.
  - B. Citizens would have a greater understanding of how much they pay for the benefits they receive.
  - C. Rating agencies and investors would gain additional insight as far as state and local government revenue capacity.