



BEST PRACTICE

Financial Forecasting in the Budget Preparation Process (1999)

Background. The National Advisory Council on State and Local Budgeting (NACSLB) has endorsed the forecasting of revenues and the forecasting of expenditures in their Recommended Budget Practices. The Government Finance Officers Association (GFOA) recognizes the importance of combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast. A government should have a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve its goals. A key component in determining future options, potential problems, and opportunities is the forecast of revenues and expenditures. Revenue and expenditure forecasting does the following:

- Provides an understanding of available funding;
- Evaluates financial risk;
- Assesses the likelihood that services can be sustained;
- Assesses the level at which capital investment can be made;
- Identifies future commitments and resource demands; and
- Identifies the key variables that cause change in the level of revenue.

Recommendation. The GFOA recommends that governments at all levels forecast major revenues and expenditures. The forecast should extend at least three to five years beyond the budget period and should be regularly monitored and periodically updated. The forecast, along with its underlying assumptions and methodology, should be clearly stated and made available to participants in the budget process. It also should be referenced in the final budget document. To improve future forecasting, the variances between previous forecast and actual amounts should be analyzed. The variance analysis should identify the factors that influence revenue collections, expenditure levels, and forecast assumptions.

References

- *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*, NACSLB, 1998.
- *Recommended Budget Practices CD-ROM*, NACSLB, 1998, *Budget Awards Program: Illustrations and Examples of Program Criteria*, Juliet Carol Powdar, GFOA, 1999.
- *An Elected Official's Guide to Multi-Year Budgeting*, Salomon A. Guajardo, GFOA, 2000.
- *An Elected Official's Guide to Revenue Forecasting*, Salomon A. Guajardo and Rowan Miranda, GFOA, 2000.

Approved by the GFOA's Executive Board, 1999.