

Improving the Effectiveness of Multi-Year Fiscal Planning

BY HOLLY SUN

Long-term forecasting and fiscal planning has long been advocated by the Government Finance Officers Association and other organizations as an effective tool in anticipating and addressing cyclical and structural budget issues. A long-term focus makes sense, as many policies and decisions have multi-year fiscal implications, and adjusting budgets, programs, and policies takes a certain amount of time. However, there is little data on this point. Is this policy tool widely implemented? How is it employed? Does it help achieve budget and policy goals? What are the important factors that can make this policy tool more effective? This article used data from a 2013 survey to shed some light on these questions.¹

1 ARE MULTI-YEAR FISCAL PLANNING AND PROJECTIONS WIDELY USED?

Wide Implementation. Survey responses indicated that multi-year projection and fiscal planning is widely practiced among the surveyed group (see Exhibit 1). More than 78 percent of respondents reported using multi-year projections for the general fund, and 68 percent reported using them for other funds. Roughly half the governments conducted long-term debt affordability analyses (53 percent). A relatively small percentage of respondents (14 percent) developed detailed multi-year spending ceilings by department or program. Many respondents also indicated that they use other

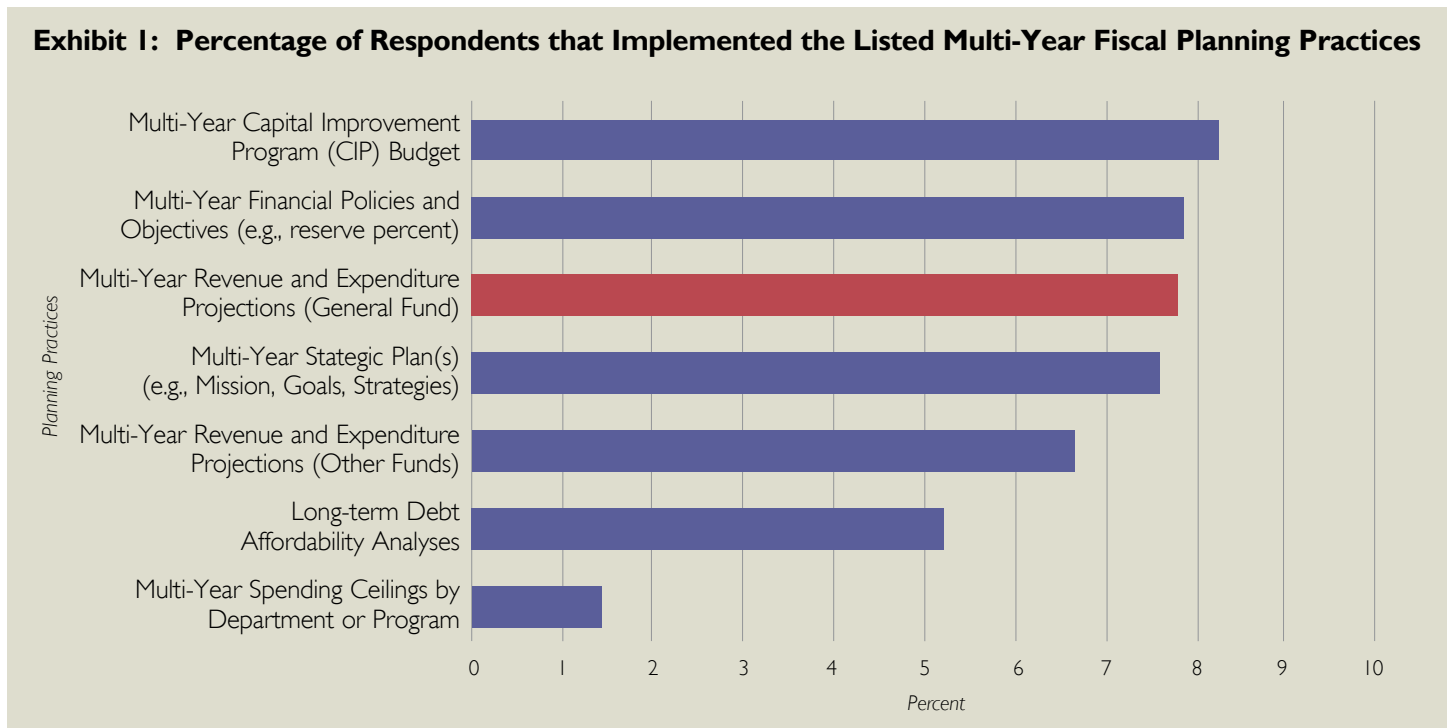
planning practices including multi-year strategic plans, multi-year fiscal policies and objectives, and multi-year capital improvement program budgets.²

Comprehensive Framework. Most responding governments implemented a relatively comprehensive multi-year fiscal planning framework, as encouraged by the GFOA, rather than practicing multi-year projections for the general fund alone. More than 59 percent of respondents implemented at least five out of the seven multi-year fiscal planning practices listed in Exhibit 1. Approximately 29 percent adopted three or four elements, and 11 percent implemented two or fewer.

Increased Momentum. Multi-year projections and fiscal planning appear to have gained popularity among local governments in recent years. Of the respondents that use this policy tool, 55 percent had fewer than 10 years of experience; 30 percent had implemented it for 10 to 19 years, and 15 percent had used it for 20 years or more.

The number of governments adopting multi-year projections has increased significantly in the past 20 years and doubled in the past decade (see Exhibit 2). The increased interest may be explained by the widespread fiscal distress local governments have experienced because of economic hardships and changes in state and federal aid and unfunded mandates during this period.

Exhibit 1: Percentage of Respondents that Implemented the Listed Multi-Year Fiscal Planning Practices



Medium-Term Horizon. Approximately 55 percent of the multi-year general fund projection models covered five to six years (including the upcoming budget year). Three-year forecasts were used by 19 percent of respondents, and 10-year models were used by 10 percent. A small percentage of users reported that they forecast beyond 10 years. Similar percentages are reported for other operating funds. Nearly 70 percent of the responding governments updated multi-year projections annually, and 24 percent updated them more frequently (15 percent semi-annually, 6 percent quarterly, and 3 percent monthly).

Different Purposes. Approximately 94 percent of respondents indicated that planning and projections were used to show revenue and expenditure trends and identify potential fiscal issues in future years. Nearly 64 percent also used this tool to indicate how a structurally balanced budget could be achieved (meaning that ongoing revenues, excluding use of fund balance and other one-time resources, would support ongoing expenditures). In addition, some respondents used forecasting to show how a fund reserve target could be met

Of the respondents that implemented multi-year projections for their general funds, only 69 percent published the projection results or made it public; the rest used the results as an internal exercise.

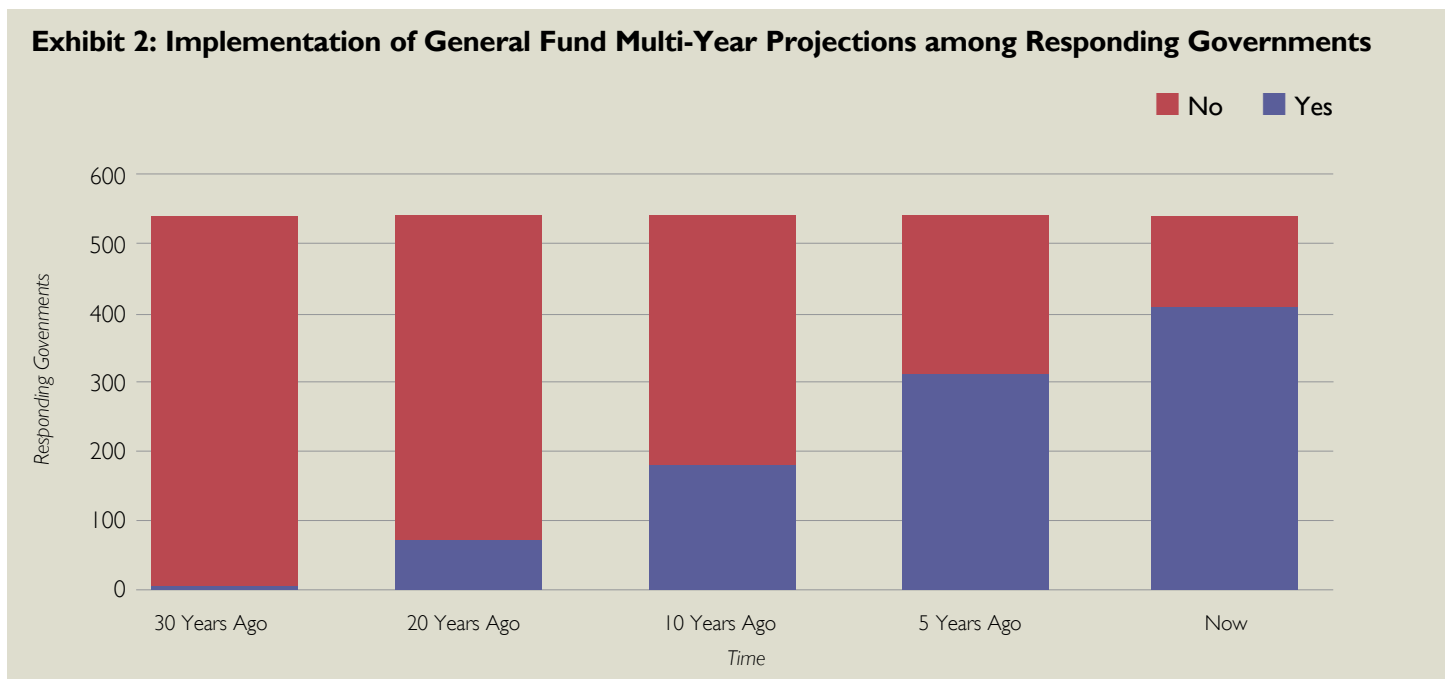
within the forecast period (49 percent) or to illustrate the fiscal impact of different policy decisions (48 percent).

2 DO MULTI-YEAR FISCAL PLANNING AND PROJECTIONS MAKE A DIFFERENCE?

Respondents rated five aspects of policy impact: fiscal health, allocation prioritization, efficiency, departmental involvement, and citizens' understanding. The evaluation framework is developed largely based on the World

Bank's evaluation of how effective a medium-term expenditure framework (annual, rolling multi-year expenditure planning) has been over the last 20 years in achieving major budget and policy goals.³

Overall Impact: Effective. Multi-year fiscal planning and projections helped improve all five of the fields listed in Exhibit 3, according to most of the 415 governments that provided evaluations. On average, multi-year fiscal planning was perceived as having a strong impact (between "some" and "significant") on fiscal health and resource allocation/prioritization, a moderate impact (between "minor" and



“some”) on efficiency and departmental involvement, and a relatively minor impact on citizens’ understanding of budget or policies.

Fiscal Health Impact: Highly Effective. Most of the respondents to this question (90 percent) indicated that multi-year fiscal planning and projections have had an impact on improving fiscal discipline and long-term fiscal sustainability in their governments, and 60 percent rated this impact as “significant.” This result strongly supports the GFOA’s perspective that multi-year fiscal planning can serve as an effective tool in improving a government’s fiscal health. Most respondents (96 percent) also reported improved expenditure prioritization.

Most responding governments implemented a relatively comprehensive multi-year fiscal planning framework, as encouraged by the GFOA, rather than practicing multi-year projections for the general fund alone.

these materials included key revenue and expenditure assumptions (92 percent), expenditure projections by category (80 percent), and ending fund balances (79 percent). (See Exhibit 4.) However, only some included detailed expenditure projections by department (52 percent) or program (26 percent), and even fewer provided solutions by either including strategies to address the fiscal issues identified (41 percent) or showing projection scenarios that would close the projected budget gap (34 percent).

3 HOW DO GOVERNMENTS IMPLEMENT MULTI-YEAR FISCAL PLANNING AND PROJECTIONS?

Survey responses revealed differences in the content, process, players, usage, and other features of multi-year general fund projections and fiscal planning.

Comprehensiveness of Document. The level of comprehensiveness, or level of detail, in multi-year projection and planning materials varied significantly among users. Most of

Transparency and Communications. Among respondents that implemented multi-year projections for their general funds, only 69 percent published the projection results or made it public; the rest used the results as an internal exercise. Most of the results were presented to critical budget and policy decision makers — the legislative authority (84 percent) and the executive authority (71 percent). Some governments also presented the results to residents (through hearings and meetings), bond rating agencies, the collective bargaining units, and the general public (via websites). Overall, 21 percent of the responding governments presented projection results to at least five of the six listed types of audience or stakeholders; 35 percent shared the results with three to four listed stakeholders; and 44 percent informed two or fewer stakeholders.

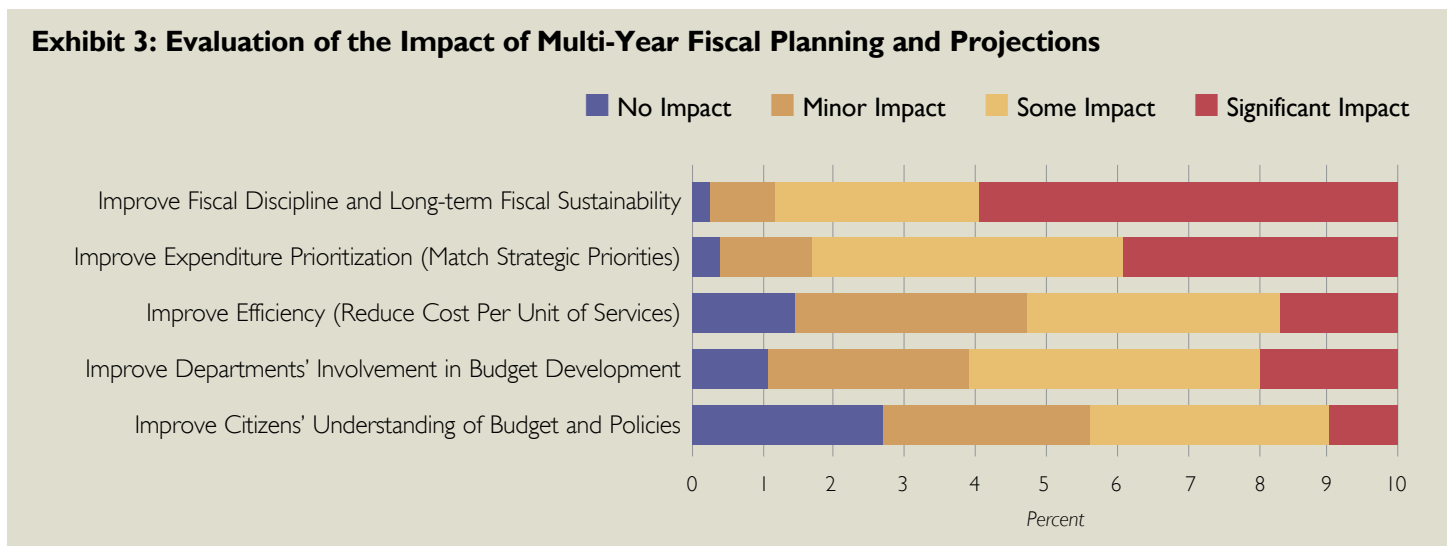
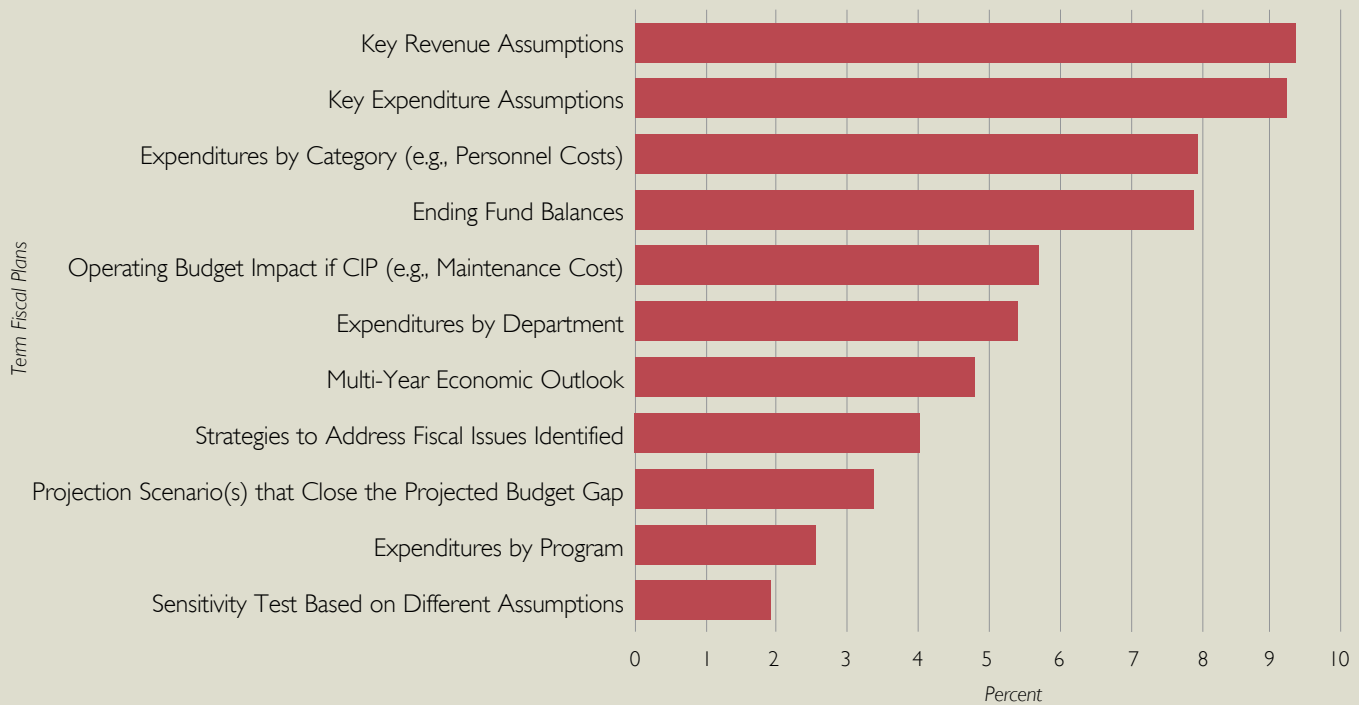


Exhibit 4: Level of Detail in Multi-Year Projection Reports or Long-Term Fiscal Plans



Stakeholder Engagement. Stakeholder engagement in developing multi-year projections for both revenues and expenditures varied. While central budget and finance offices played a critical role 97 percent of the time, the process also typically involved other major players such as senior management (nearly 90 percent of the time), individual departments (75 percent), and the legislative authority (53 percent). Other players were engaged less frequently. For example, citizen advisory boards were involved in only one out of nine responding governments. The participation of a revenue/expenditure panel in multi-year projections was also rare (less than 4 percent).

Integration with Strategic Planning. Does the multi-year projection and planning for the general fund match or reflect a government's long-term strategic priorities? The survey results indicated that overall, the integration still appeared to be in a developing stage. Nearly half of the responses indicated that their multi-year expenditure projections either

had no observed link to the government's long-term strategic plans (16 percent) or were primarily driven by other factors (32 percent). Another 17 percent matched projections with strategic priorities by sector (e.g., public safety). Only 26 percent of respondents reported matching projections with strategic priorities at the department level, and another 10 percent indicated that the integration occurred at the program level.

4 HOW TO MAKE MULTI-YEAR FISCAL PLANNING AND PROJECTIONS MORE EFFECTIVE?

Survey responses revealed differences in the content, process, players, usage, and other features of multi-year general fund projections and fiscal planning.

What are the critical factors in making multi-year projections and fiscal planning a (more) useful budget and policy tool? The most frequently cited factors from the survey were: quality of multi-year forecasting (73 percent); ongoing modifications, evaluations, and follow-ups (51 percent); and making multi-year projections an official step in the annual budgeting process

(50 percent). Many respondents also noted the importance of gaining support or buy-in from elected officials, using a collaborative approach, and creating effective presentations and publications.

Statistical analysis of the survey data indicated that several features of multi-year fiscal planning had a statistically significant impact on this policy tool's overall perceived effectiveness (measured by the sum of the reported ratings in all five fields).⁴ (Statistically significant impact means the impact exists and is not observed by chance; the performance of these factors affects the rated overall effectiveness, holding all other conditions the same.) These features included:

■ **The Comprehensiveness of Multi-Year Projection**

Materials. A report or presentation that includes detailed analysis reflecting the quality of multi-year projections provides the best information for decision makers on issues, assumptions, potential options, and associated policy implications. It also increases the chance of influencing final decisions.

■ **The Number of Stakeholders Presented with**

Projection Results. Openness and communication are other key elements for success. Exercising multi-year projections internally is not sufficient; sharing information and communicating recommendations with key stakeholders proves critical to obtaining the understanding and buy-in of main players, which in turn helps facilitate the development and execution of strategies that address long-term fiscal issues and achieve budget goals.

■ **The Number of Stakeholders Involved in Developing**

the Multi-Year Projections. The engagement of key stakeholders, including departments, is important in improving the quality of and support for the projections.

■ **The Level of Integration between Multi-Year Expenditure Projections and the Government's Long-Term Strategic Planning.**

Integrating multi-year fiscal projections more closely with long-term strategic and policy priorities is challenging but ultimately beneficial. Doing so provides the fiscal implications of the intended service delivery plans, rather than just assuming a same-service scenario. This helps keep the overall expenditure at a targeted level and also informs the discussions and decisions on realigning resources across services and programs to support strategic priorities in a multi-year timeframe.



The first two features listed above — the comprehensiveness of materials and the level of communication — also have a statistically significant impact on improving a government's fiscal discipline and fiscal sustainability. Two other elements with a statistically significant impact on fiscal discipline and fiscal sustainability are:

■ **Whether Multi-Year Projection or Planning Materials Include a Scenario that Closes the Projected Fiscal Gap.**

Issues, along with solutions or options, should be provided explicitly in the projection materials to inform decision making.

■ **Whether Multi-Year Projections Are Designed to Show How a Structurally Balanced Budget Can Be Achieved.**

Again, use multi-year projections and fiscal planning to show trends and identify issues, but also: 1) target achieving a structurally balanced or financially sustainable budget, and 2) illustrate how to reach this goal.

Interestingly, population size, government type (e.g., city, town, village, county, special taxing district), and level of unionization were not found to have a statistically proven impact on the effectiveness of multi-year fiscal planning and projections. Hence, the findings of this research were not limited to governments of certain population size or type.

CONCLUSIONS

Survey responses indicated that multi-year fiscal planning and projections are widely used among local governments,

and their use has gained momentum in the past decade. Most responding governments that apply this policy tool reported that multi-year fiscal planning and projections are effective in improving fiscal health, allocation prioritization, efficiency, departmental involvement, and citizens' understanding of budget and policies. In particular, more than half of the governments that responded to the survey indicated that the practice had a "significant impact" on improving fiscal discipline and long-term fiscal sustainability. A large variety of approaches were reported in terms of process, materials, players, transparency, and usage. Some of these features, such as the comprehensiveness of projection materials, the openness or level of communication regarding projection results, and whether multi-year projections were designed to achieve a structurally balanced budget, appeared to influence the rated overall effectiveness of this policy tool as well as the government's fiscal health and sustainability, based on statistical analyses. Users also indicated that the quality of projections, ongoing adjustments and evaluations, and making multi-year projections an official step in the annual budgeting process were important factors in making multi-year fiscal planning and projections a stronger policy tool.

Although caution should be exercised in generalizing the findings (because the survey is not based on a random sampling, and most survey data are limited to the general fund), the findings appear to be useful, given the diversity of responding governments and the variety of reported approaches in developing and using multi-year fiscal planning and projections.

Multi-year fiscal planning is expected to gain an increased application in coming years, as fiscal challenges are likely to remain. Facing the prolonged effects of the economic downturn, the long-term pension and health benefit obligations, and the uncertainties of potential federal and state actions, governments should consider using multi-year fiscal planning and projections, together with sound fiscal policies and innovations, to understand and plan for the future. For many jurisdictions, a strategic multi-year approach may be the only way to help reach a balance between fiscal sustainability and service delivery in the years ahead. ■

Multi-year fiscal planning and projections helped improve fiscal health, allocation prioritization, efficiency, departmental involvement, and citizens' understanding.

Notes

1. The survey, developed in collaboration with GFOA, was sent to 1,341 governments in March 2013. Survey questions related to the overall multi-year fiscal planning framework and general budget information, but were primarily targeted at multi-year planning practices in the general fund. The response rate was 41.5 percent, with 559 responses. GFOA Distinguished Budget Presentation Award winners made up the sampling groups. Survey responses came from 44 U.S. states and several Canadian provinces, representing a variety of local governments including municipalities, counties, special taxing districts, and two state governments. Most survey respondents were directors or senior managers who oversee budget or finance. Most of the data and findings discussed in this article refer to multi-year fiscal planning and projections for the general fund, unless otherwise specified. Because these findings are not pulled from a random sampling, readers should use caution in making generalizations based on this information.
2. The relatively significant percentages shown here may not represent all governments, as governments that have won the GFOA Distinguished Budget Presentation Award may be more inclined to apply multi-year fiscal planning than average local governments.
3. David Shand, *International Experience and Best Practice in Implementing Medium-Term Expenditure Framework* (2011).
4. Statistically significant at 0.05. Findings are based on multiple regression analysis and cumulative logistic regression analysis.

HOLLY SUN is deputy director of the Office of Management and Budget of Prince George's County, Maryland, and a Ph.D. candidate in Public Policy and Public Administration at George Washington University. She has 14 years of experience in revenue forecasting, performance management, and budget management with local governments. Sun is a former member of the GFOA's Governmental Budgeting and Fiscal Policy Committee, and she holds a Master of Public Policy degree from Duke University. She can be reached at holly.w.sun@gmail.com.

The author would like to thank Shayne Kavanagh, senior manager of research and consulting at the GFOA; Joseph Cordes, Associate Director, Trachtenberg School of Public Policy and Public Administration at George Washington University; and experts from different governments and institutions for providing feedback to the initial survey designs. She would also like to thank everyone who participated in the survey.