

Quarterly Budget Projections

Quarterly projections are a tool used by governments to benchmark year-to-date income and spending against the approved budget. Once all financial activity for the last month in a quarter is closed (September, December, March, June), financial staff should prepare new projections based on expenditure and payroll information contained within the financial system along with operational information obtained from department heads. Depending on an analysis of revenue and expenditure trends, other appropriate action, such as spending freezes or budget adjustments, may be required.

Under [M.G.L. c. 41, §58](#), town accountants and city auditors are required to provide monthly expenditure reports to all departments, boards and committees. These reports simply reflect actual expenditures against appropriations. The creation and distribution of expenditure reports is a prudent practice, as well.

What makes quarterly projections different from monthly expenditure reports is that quarterly projections, as the name implies, project expenditures through the end of the fiscal year based on year-to-date expenditures and anticipated costs. Quarterly projections also incorporate analysis of revenue collections against corresponding budgeted amounts.

In general, projections should consist of a table, or spreadsheet, showing the original departmental budgets, year-to-date expenditures in the same line item detail, and a projection of any variance (positive or negative) by year-end. A separate table would show variances in budgeted-to-actual revenues. Still more sophisticated analyses match-up actual revenues with the departments that generate them. To be most effective, projection analysis should be performed on each city/town fund, i.e. the general, capital, revolving, grant, trust and special revenue funds.

Narrative analysis of the fiscal picture should also accompany each table to highlight the specific issues in a given department that may cause a budget deviance. Regular budget-to-actual reporting gives decision makers greater insight into cash flow demands and enhances the number of options available to meet financial challenges. Through reporting and analysis, opportunities are created to adjust spending behavior if revenue is not hitting expectations or if departments are spending more than expected. When revenue trends are strong and expenditures are incurred at a slower pace than anticipated, quarterly projections can, by the end of the 3rd quarter, bring into focus possibilities for larger than expected balances. Understanding the breadth and depth of outstanding balances, in turn, enables

decision makers to prioritize and manage 4th quarter spending and increase end-of-year departmental turn backs. This last point can help cities and towns in their efforts to build reserves through the generation of free cash.

Given that quarterly projections allow regular opportunities for management to evaluate the organization's financial position, performing such analysis is viewed favorably by bond rating agencies.