For many working in the public sector, budgeting for an upcoming fiscal year is well underway. Has there ever been a more challenging time to account for future unknowns than the current crisis we find ourselves working to overcome?

Budget planning during a “normal” fiscal year is difficult enough, as unknowns and what-ifs are a part of the budgeting process. Past experiences and fairly settled patterns on which we can generally rely help us predict many of our budget assumptions. But forecasting and projecting an annual plan at a time when “facts on the ground” are changing so fast makes the plans we craft today seem like a fool’s errand.

School administrators and municipal managers should be forgiven for feeling ill-at-ease during their fiscal year-end planning and next-year budget planning sessions: Even the “experts” are getting projections wrong. Their models were off. New data emerged. We failed to account for this or that.

But the numbers will soon be due and telling. There’s no sense in denying reality. The good news is that there are measures we can take today that won’t necessarily eliminate unpredictability in the future; but can at least account for it...and maybe even prepare for it.

A school superintendent friend of mine made a profound statement the other day, suggesting that, “Every district better have three budgets in their pocket when they start the 2021 school year!” Great advice! But how?

One of the best ways to hedge against uncertainty is to create various and disparate scenarios, then calculate the outcomes to provide a range of projections for what the future might look like. The problem many budget builders are having right now is that inputs are seemingly infinite: What if income tax receipts drop 10%? Or 15%? What will our parking revenue be? Not knowing when our retail businesses will be back up to full stride, how much sales tax will they generate? How many children will show back up for school when it reopens? How will we bus them? How will cafeterias function? With so many jobless claims, how “off” will our income tax revenue be? What if our expenses rise
tenfold? With so many unforeseen investments suddenly necessary and urgent, such as PPE being sold at prices four to ten times higher than normal, new cleaning supplies and systems, increased investment in remote technology, ambulances that are wearing down quicker, with longer wait times for replacements, etc.? What if? What if, What if?

We can’t reliably predict the relevant time horizons to inject any sort of end-date confidence into these projections. Yet, we don’t have the luxury of time to wait for a return to any semblance of “normal,” when projections and forecasts can be more reliably made. So now what?

NOW is the time to act - even if the budget isn’t due for a couple months or more. If we wait too long, too much will have changed, so much new information will have to be accounted for, and we’ll find ourselves scrambling to make best guesses and insert relatively random estimates in the interest of urgency. That’s a recipe for error, and even greater uncertainty. A perfect budget isn’t a reasonable expectation. Budgets are a plan, and plans are subject to change.

Our advice is to look at the big picture...many of them, in fact. Whereas financial professionals have the natural gift, inclination and patience to make calculations in a very granular manner, the current moment demands that we take a step back and look at broader trends, larger impacts, and to be inclusive of line items we’ve never accounted for in the past. If we don’t, our granular and exacting attention to detail will be swept away with the tide of this rushing wave of new information.

In short, these are dynamic times, to be sure. Events, facts and data change hourly. Your budgeting needs to be equally dynamic and nimble to adapt right along with them.

Start with three, adjust as needed

With so few knowns and so many questions, we recommend that budgeters start by bracketing uncertainty to limit the range of unpredictability. From there, we can hone in. Start with three budget scenarios, after you’ve made your best-case analysis (likely an educated guess) where you are in the current budget cycle (be conservative) and use a top-down approach (i.e., you can’t spend more than you have), and start with revenues.

- **Best-Case Scenario:** What is the most optimistic—but realistic—vision for future revenues and expenditures? Don’t be overly bullish...rather, very cautiously optimistic. This exercise will inject greater calm and confidence, and help you prepare for the future absent negativity, emotion or panic. Just as the coronavirus models themselves improved as behaviors changed, it is possible to emerge from
this challenge better off than we’d originally feared. Be sure to have a plan for that eventuality.

- **Worst-Case Scenario:** The counter exercise will allow your mind, your team and your planning process to put a bracket around your worst fears. Documenting those not only allows you to start planning now for the worst possible outcomes, it can have the effect of actually easing anxiety, as your budgeting should demonstrate your entity’s ability to withstand the coming storm, if you start accounting for the tough road ahead sooner.

- **Realistic Middle Ground:** Only after going through the prior two exercises will your brain and your budget be able to wrap itself around the most likely scenario, factoring in both the negative and positive possible versions of the future. Clarity should emerge. You will get to a point where your focus is on some version of a reasonable forecast, from which you can tinker and tweak to account for deviations in inputs as actual data becomes available.

From there, you’ll want the ability to quickly and repeatedly adjust variables, including revenue and expenditure parameters, once unknowns become likelihoods, and eventually, knowns. *It is absolutely critical, though, to build that framework now,* so you can continue to make adjustments along the way, rather than build something new from scratch 20 times between now and the budget’s due date.

Of course, standard, off-the-shelf spreadsheet software will make this onerous and rigid. If there was ever a time to make an investment in a nimble, predictive and agile technology to create, envision and modify budget plans, it’s now. The minute you have a scenario settled, the facts will change. And even accounting for numerous and varied scenarios, you can be assured that once you find yourself presenting that budget to a room full of decision makers, someone at the table will inevitably ask, “Have you ever considered what this will look like if X happens, and not Y?”...presenting yet another scenario to consider!

You’ll want to have that answer in minutes...not weeks or months. For all its utility, Excel will not be up to that challenge. Being able to adjust assumptions on the fly is critical.

Three scenarios may not even be enough. You’ll want a tool that can overlay five or more, and demonstrate side-by-side comparisons, so that informed decisions can be made easily, confidently, collaboratively and quickly.
In the meantime, cash in king!

Now is not the time to rest on our laurels and wait for the dust to settle. Apart from working hard on budgeting for an unknown future, we can and must take actions in the more certain present to mitigate future hardship, if at all possible.

Consider pausing collision insurance on fleet assets, like school busses or dormant DPS vehicles. Before you do, fill the entire fleet up with historically inexpensive fuel, and even try to buy future fuel contracts. Adjust your HVAC controls. Turn off ISPs and cable TV access for buildings not in use. Renegotiate payment terms with vendors, including discounts for early payment terms. Nothing should be off the table. It's time to re-evaluate everything!

In our experience, chaos breeds opportunities, and there is no time like the present to start addressing an uncertain and ever-changing future.

Need help or ideas? Contact us! Always happy to have conversations and explore scenarios! I can be reached personally using bob@munetrix.com, or leave a message at (248) 499-8355.