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Tax Levy Management in Practice: Bringing FP&A Discipline to Municipal Forecasting

Presented to NESGFOA, Fall 2026 Conference
September 27-30, 2026



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Overview

- Introduction
- Unprecedented change and volatility
- Different systems, same fundamentals
- Approaches and forecasting
 - Proactive versus reactive levy management
 - Practical framework
- Private-sector analysis for public Sector decision-making
- Q&A



Introduction



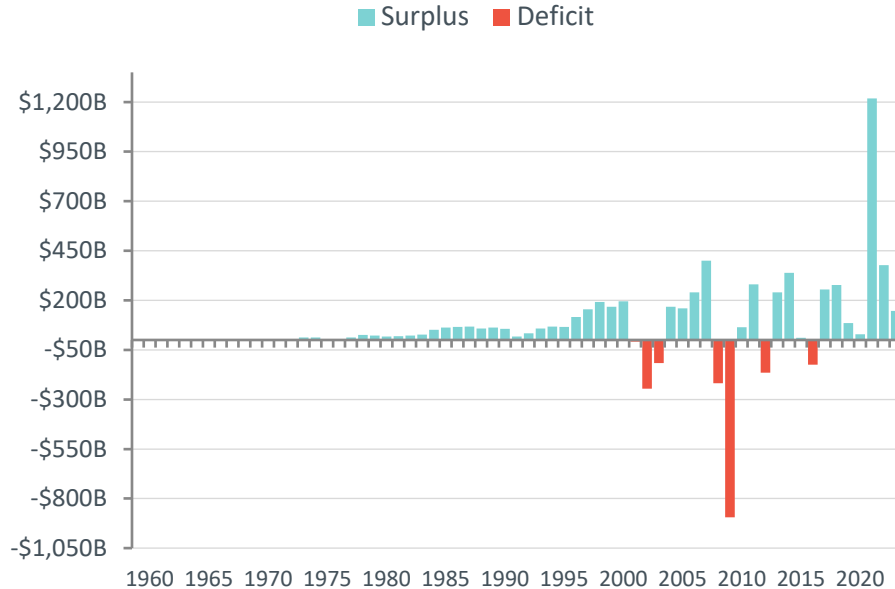
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State and Local Government Surplus/Deficit Volatility Has Exploded

State and local government surplus (deficits), annual, in billions of dollars (1959 to 2023)



Data from Federal Reserve Economic Database

Unprecedented scale

Swings that once spanned tens of billions now span more than **\$2 trillion peak-to-trough**, and they arrive far faster.

+\$1,219 billion

2021 pandemic aid surge

-\$895 billion

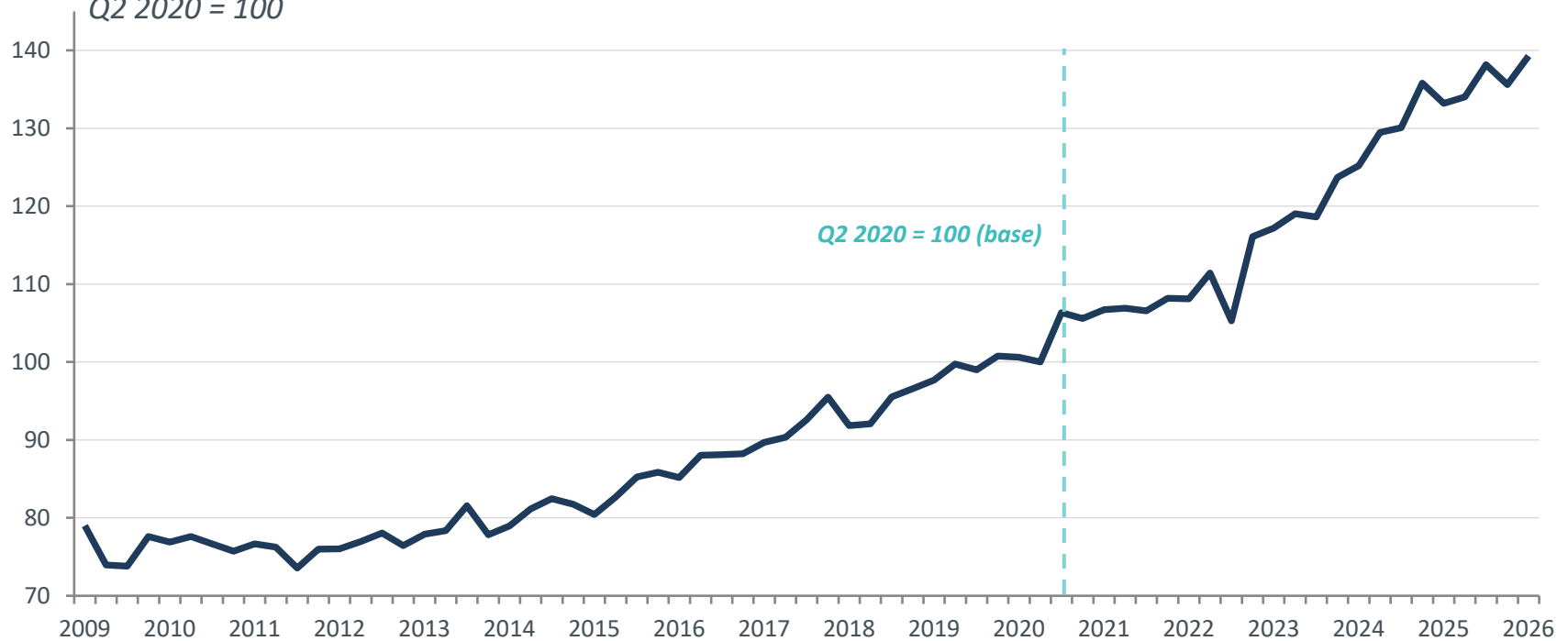
2009 Great Recession trough

> \$2.1 trillion

Peak-to-trough swing in ~12 years

National State and Local Property Tax Revenue Has Climbed Steadily

National totals of state and local tax revenue: T01 property taxes for the United States, quarterly, indexed to Q2 2020 = 100

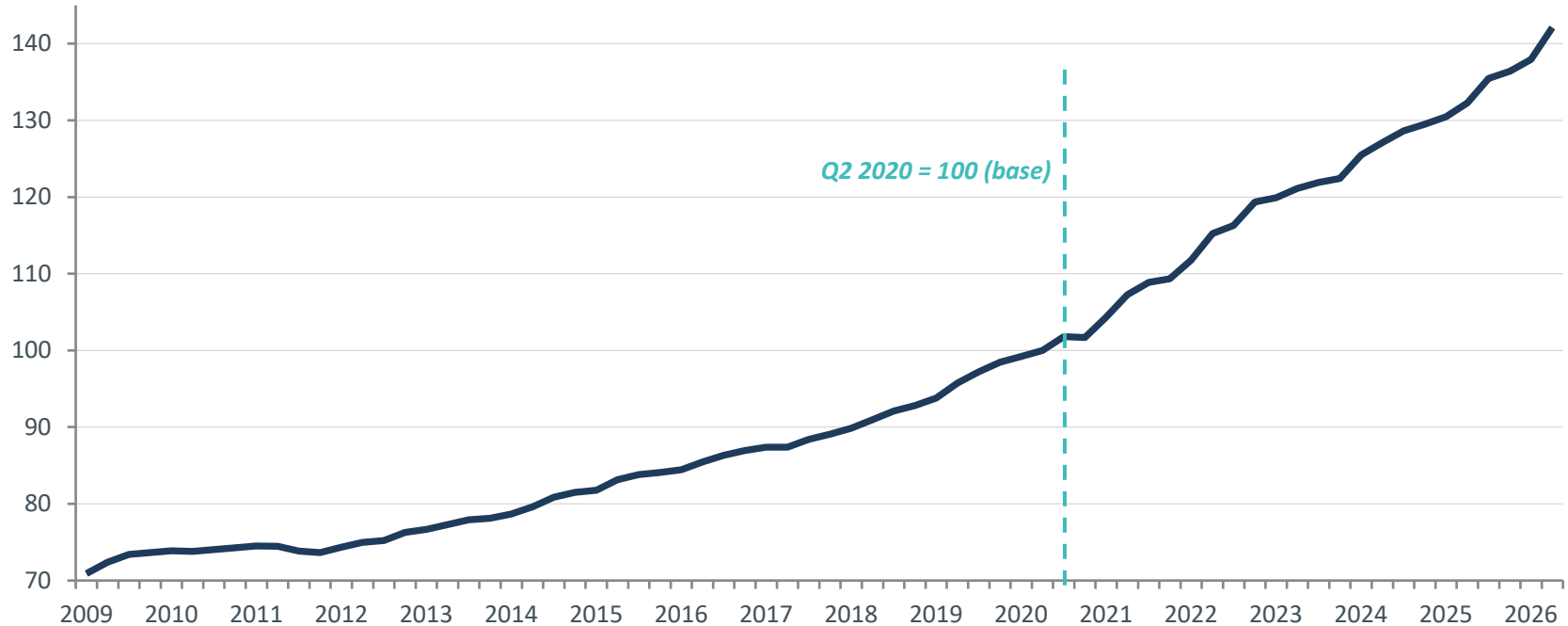


Data from Federal Reserve Economic Database



State and Local Government Current Expenditures Continue to Climb

State and local government current expenditures, quarterly, indexed to Q2 2020 = 100



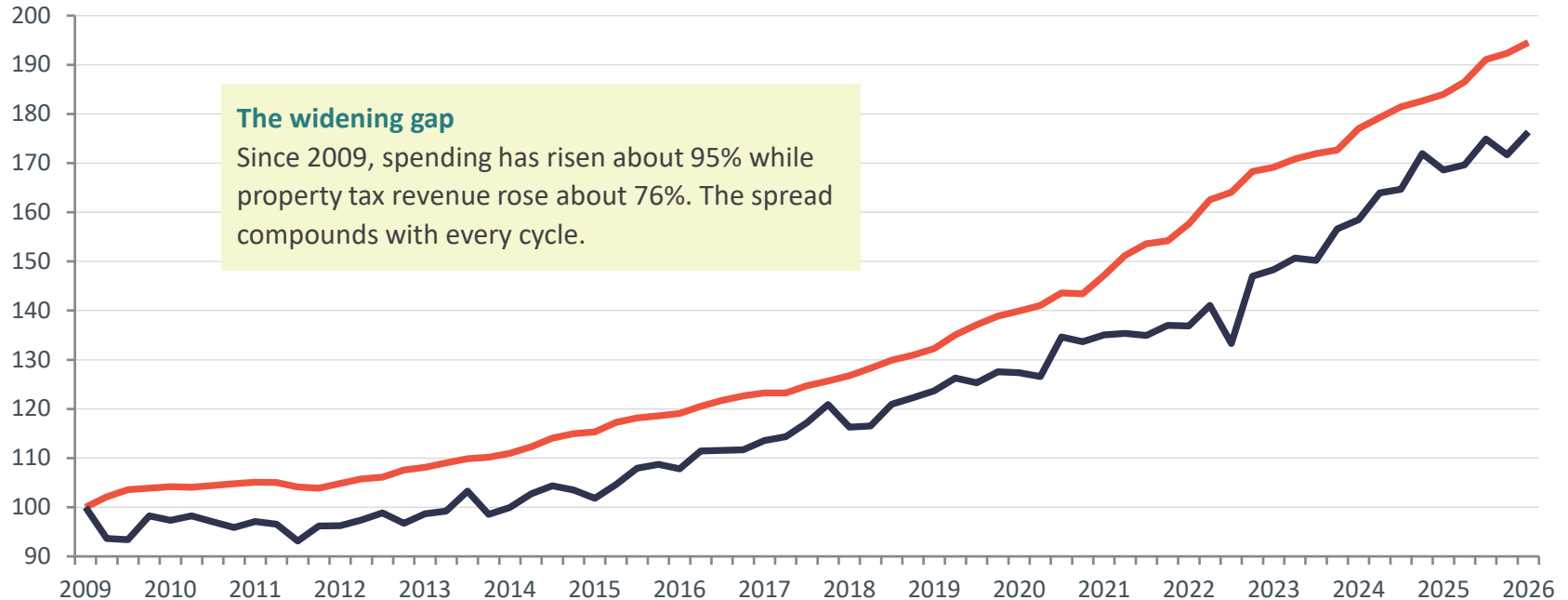
Data from Federal Reserve Economic Database



Expenditures Are Outpacing Property Tax Collections

State and local current expenditures vs property tax revenue, quarterly, indexed to 2009 = 100

— Current expenditures — Property tax revenue



The widening gap

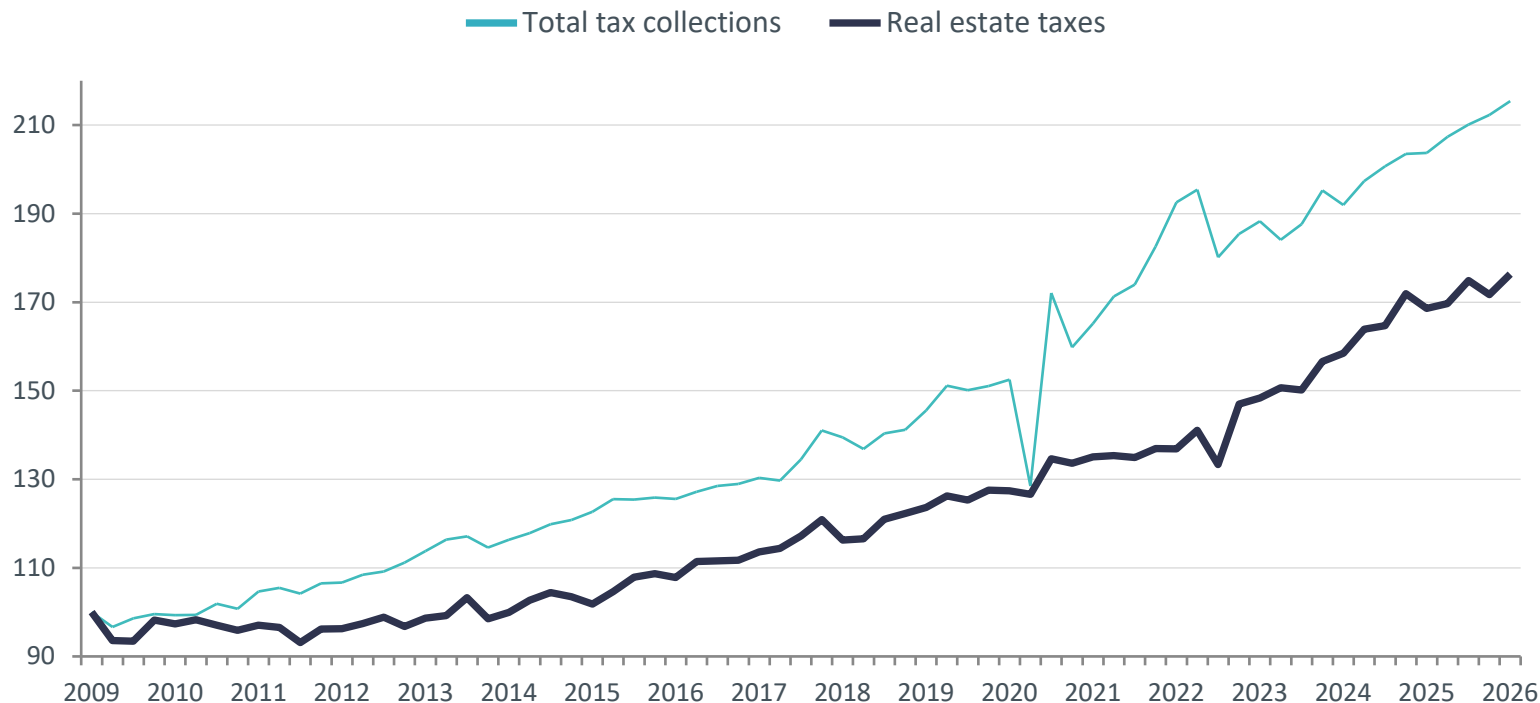
Since 2009, spending has risen about 95% while property tax revenue rose about 76%. The spread compounds with every cycle.

Data from Federal Reserve Economic Database



Total Tax Revenues Have Outpaced Real Estate Taxes

Total state and local real estate taxes vs total tax revenues, quarterly, indexed to 2009 = 100



Data from Federal Reserve Economic Database



How New England States Dictate the Municipal Tax Levy

Statutory levy limit frameworks compared, from hard caps to no cap at all

State	Constraint type	Governing law	Annual growth mechanism	Primary escape valve
Massachusetts Hard cap	Hard dual cap	Proposition 2½ (1980)	Prior levy limit × 1.025, plus new growth; cannot pierce 2.5% of full value ceiling	Voter override; debt or capital exclusion
Rhode Island Hard cap	Hard levy cap	R.I.G.L. § 44-5-2	Total levy capped at 104% of prior year (4% growth)	Auditor general emergency certification; new affordable-housing carve-out (2025)
Maine No cap	None (repealed 2024)	Former Title 30-A § 5721-A	LD 1 formula repealed by LD 2102; no statutory cap remains	Ordinary town-meeting budget process
Connecticut No cap	None on levy	No levy statute; § 12-71e	Set by residual budget math; real-property levy uncapped	N/A — only a motor-vehicle mill-rate cap (32.46 mills)
New Hampshire Opt-in	Optional, opt-in	RSA 32:5-b	Only where adopted: prior amount raised, optional CPI × population factor	Legislative body override at meeting
Vermont Centralized	State-set yield	32 V.S.A. § 5402 et seq.	Per-pupil spending ÷ statewide yield, CLA-adjusted (not a local cap)	Voter-approved excess spending; income-sensitivity credit

The Reactive Default

Estimate to the cap

- Project the levy at the maximum allowable amount and stop there.

Roll last year forward

- Carry the prior budget into the new year as the default starting point.

Adjust at the margins

- Tweak a few line items rather than rebuilding from drivers.

React when a gap appears

- Respond only once a shortfall or pressure has already emerged.



Proactive Levy Management: Forecasting Through Volatility

Proactive management treats the levy as a forecasted, managed asset, one that must absorb shifting prices, costs, and economic pressures rather than react to them after the fact.

Forecast the levy, do not just estimate it

- Project the levy and new growth across a rolling multiyear horizon rather than a single budget year.
- Build from underlying drivers, base, allowable growth, and new growth, so the forecast can flex as conditions change.

Account for volatility

- Model a range, base, conservative, and optimistic, so the plan holds up when revenue or the economy swings.
- Stress test the assumptions that matter most, and distinguish cyclical revenues from stable ones for reserve planning.

Anticipate changing prices and pressures

- Track inflation, wage and benefit growth, and debt service against a levy base that grows more slowly.
- Surface the structural gap early, then translate it into reserve targets, timing of overrides or exclusions, and service-level decisions.



Proactive vs Reactive Levy Management

What proactive looks like

Dimension	Reactive	Proactive
Time horizon	Single budget year	Rolling multiyear (5+ years)
Data use	Prior-year actuals rolled forward	Driver-based, data-informed inputs
Assumptions	Implicit and undocumented	Explicit, sourced, and documented
Scenario range	Single point estimate	Base, conservative, optimistic range
Link to strategy	Compliance figure	Managed asset tied to financial plan



Financial Planning and Analysis Practices Government Can Use

Corporate finance teams navigate uncertainty with disciplined, repeatable analytics. Three practices translate directly to municipal revenue forecasting:

- **Long-term forecasting:** multiyear, rolling projections that extend beyond a single budget year to surface structural trends early.
- **Sensitivity analysis:** stress testing each key assumption to see which ones move the outcome, then planning for a range instead of a single point.
- **Marginal analysis on revenue:** modeling the incremental revenue effect of changing economic conditions using leading macro indicators, not prior-year actuals.

The common thread: move from estimating a single number to modeling a defensible range driven by real economic signals.



Example One: Long-Term Forecasting with Sensitivity Analysis

Private-sector approach

- A company projects revenue several years out, then flexes its core drivers, price, volume, and growth rate, to produce a band of outcomes rather than one line, and plans against the range.

Government translation

- Project the tax levy and new growth across a rolling five-year horizon.
- Flex the growth rate, new growth pace, and collection assumptions.
- Report a base, conservative, and optimistic band to policymakers.
- Update the band annually as actuals and conditions change.
- *The band widens with time, honestly showing that uncertainty grows the further out you forecast.*



Implementation: Long-Term Forecasting and Sensitivity

How to implement

- Build the base model: a multiyear revenue model with each driver as its own editable input.
- Define the flex ranges: low, expected, and high values for each key assumption from history and outlook.
- Run the scenarios: generate base, conservative, and optimistic paths and chart them as a band.
- Institutionalize the review: refresh annually, compare to actuals, and document what changed and why.

Pros

- Surfaces structural gaps years before they hit the budget, frames uncertainty honestly, and gives ready talking points for boards and rating agencies.

Cons

- Requires clean historical data and staff time, ranges can be misread as indecision, and model complexity can outpace a small team.



Example Two: Marginal Analysis on Revenue, Anchored to Macro-Data

Private-sector approach

- Firms estimate how much incremental revenue moves for each unit change in a demand driver, interest rates, employment, or consumer spending, then forecast from the macro-outlook rather than a flat growth rate.

Government translation

- Link elastic revenues, local receipts, excise, and permits, to macro indicators.
- Estimate the marginal response, such as revenue change per point of employment or per rate move.
- Feed regional forecasts into the projection instead of a fixed percentage.
- Flag which revenues are cyclical versus stable for risk planning.



Implementation: Macro-Driven Marginal Analysis

How to implement

- Identify elastic revenues: separate revenues that move with the economy from those that stay stable.
- Select macro indicators: choose credible regional signals, employment, rates, and spending, with available data.
- Estimate the coefficients: use regression or ratio analysis to quantify revenue response per unit change.
- Forecast and monitor: drive projections from the macro-outlook and track forecast accuracy over time.

Pros

- Ties revenue to real economic signals, distinguishes cyclical from stable revenue for smarter reserves, and improves early warning when the economy turns.

Cons

- Statistical relationships can shift in structural change, the work requires analytical skill and reliable data, and over-reliance can mask local factors.



Private-Sector Analysis for Public Sector Decision-Making

The analytical tools that drive corporate strategy do not need to stay confined to the boardroom. The same discipline can strengthen how government governs day-to-day and plans for the future.

In day-to-day governing

- Bring driver-based analysis into routine decisions, staffing, procurement, and service levels, so tradeoffs are quantified, not assumed.
- Use marginal analysis to weigh the true incremental cost and benefit of a decision before it is made.
- Monitor leading indicators through the year, turning the budget into a live management tool rather than a static document.

In planning for the future

- Apply multiyear forecasting and sensitivity analysis to test how today's choices play out over a five-plus-year horizon.
- Model a range of scenarios so reserves, capital, and debt decisions are built to withstand volatility, not just the base case.
- Anchor long-range projections to real economic signals, giving policymakers a defensible basis for hard choices.

Adopting private-sector rigor lets government act deliberately, communicate credibly, and plan with confidence.



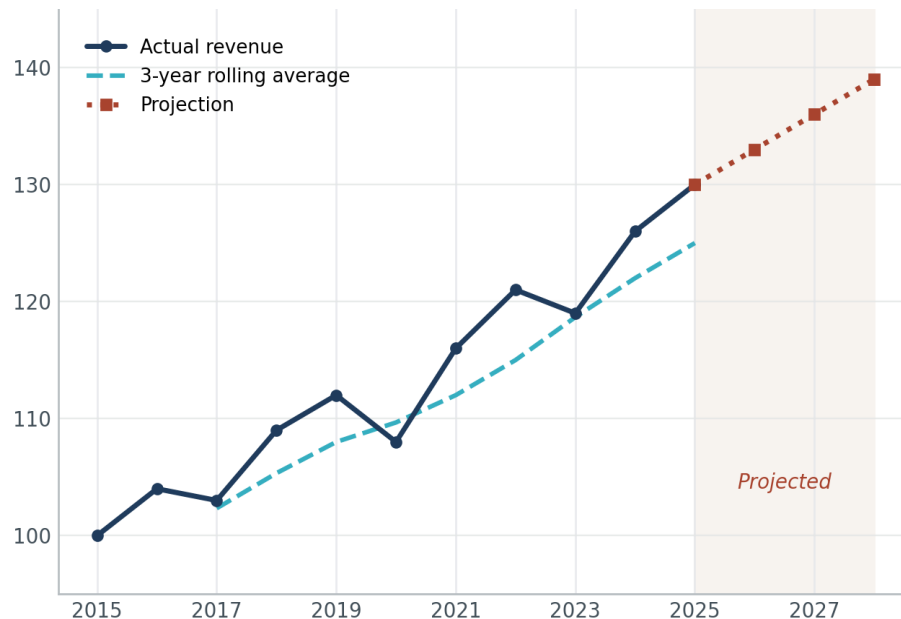
Rolling Previous-Period Averages, With Projections

The practice

- Smooth year-to-year noise by averaging recent periods, then extend that trend forward as a projection.
- A rolling window updates every period, so the forecast always reflects the most recent momentum.

Why it works for revenue

- Dampens one-time spikes and dips that would distort a single-year estimate.
- Simple, transparent, and easy to defend to a board or council.
- Designed for stable, trending revenues; less suited to sharp structural breaks.



Illustrative: actual revenue, a 3-year rolling average, and a trend-based projection.

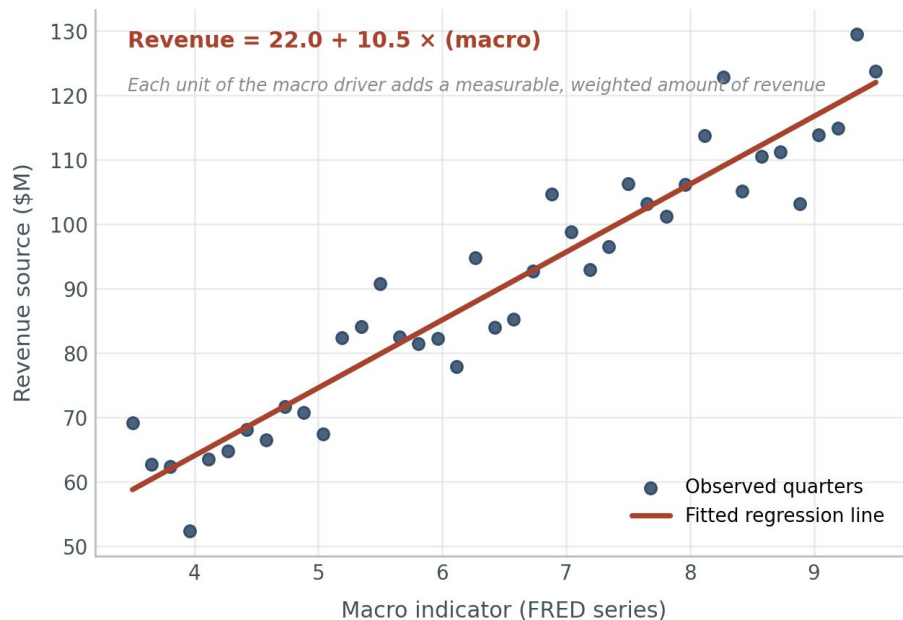
Using Macro-Data for Forecasting: Linear Regression

The practice

- Regress a revenue source (dependent) on a macroeconomic FRED series (independent), such as employment, wages, or GDP.
- The fitted slope quantifies how much revenue moves per unit change in the macro driver.

Why it works for revenue

- Ties the forecast to real economic signals instead of a flat growth assumption.
- Let's you forecast revenue directly from published macro projections.
- Requires a genuine, stable relationship; test the fit before relying on it.



Illustrative: each quarter plotted against a macro indicator, with the fitted regression line.

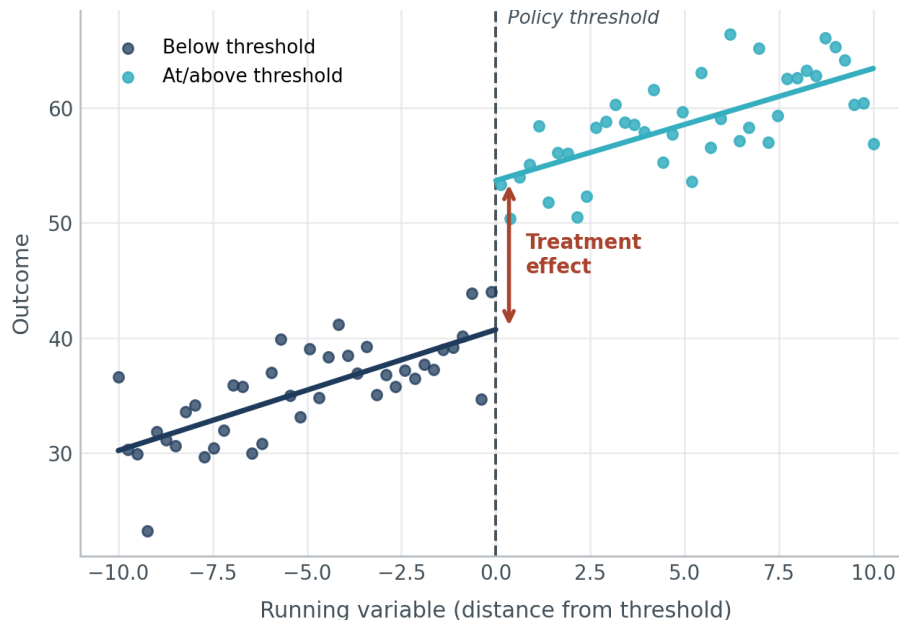
Measuring Policy Impact: Regression Discontinuity Design

The practice

- When a policy applies only above a threshold, compare outcomes just below and just above that cutoff.
- The jump at the threshold estimates the policy's causal effect, since units on either side are otherwise similar.

Why it works for government

- Turns eligibility rules, income limits, enrollment cutoffs, into natural experiments.
- Produces credible, defensible impact estimates without a randomized trial.
- Applies only near the threshold and needs enough observations around it.



Illustrative: outcomes below and above a policy threshold; the vertical gap is the treatment effect.

Where We've Been

A quick look back at the ground we covered.

The setting

- Capped revenue, rising costs, and a more volatile environment have reshaped what forecasting has to account for.

The shift

- Moving from reactive, compliance-driven estimates toward a proactive posture that treats the levy as a managed asset.

The toolkit

- Borrowing from FP&A: rolling averages and projections, macro-driven regression, and design-based methods like RDD.

The application

- These are not just boardroom exercises; they translate into day-to-day governing and multiyear planning.



Where We Go From Here

The horizon is long, and the tools to plan across it are already within reach.

- Start with one revenue line and one method; a small, well-built model beats a perfect one that never gets used.
- Let each forecast cycle sharpen the next, so the practice compounds over time rather than starting fresh each year.
- Share the range, not just the number; it invites better questions and steadier decisions from policymakers.
- The work we do now quietly shapes the choices our communities get to make later.

Good forecasting rarely makes headlines, and that is exactly the point.





Questions and answers



Thank you!

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