



**PMA**<sup>™</sup>

# What to Know About Managing Your Cash Flow and Investments

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# Today's Presenters| PMA & CESA 8



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## Agenda for Today

- ▶ Why use a cashflow?
- ▶ How can a forecast tool help with your cash flow?
- ▶ Cashflow for Investments



## Why is Cash Flow Important?

- ▶ Cash Flow is a tool that allows you to manage all cash inflows and outflows of your school district, ensuring there are always funds available when needed
- ▶ Essential instrument for informed management decision making



# Why is Cash Flow Important? (Continued)

## Operational Efficiency

- ▶ Formal organization and documentation of projected inflows and outflows
- ▶ Ensure all liabilities can be properly funded
- ▶ Optimize investment earnings
- ▶ Short term borrowing: identify cash short fall, timing and amount

## Communicate. Clearly.

- ▶ Keep the administration and board of education informed
- ▶ Tell the story of district finances
- ▶ Specific strategies in place when changes to key personnel occur



# Understanding Fund Balance vs. Cash Balance

- ▶ Debunk fund balance myths
  - ▶ School district fund balance reserves do not tell the whole story
  - ▶ Fund Balance  $\neq$  Cash Balance
- ▶ State aid and tax revenue are relevant factors
  - ▶ A district could have what appears to be a significant fund balance and still have to cash flow borrow if they are highly reliant on property taxes



# Understanding Calendar Year vs. Fiscal Year

- ▶ Districts set their tax levy on a calendar year basis.
  - ▶ The August tax settlement is received in following fiscal year
- ▶ Districts budget on a fiscal year basis
  - ▶ July & September Equalization aid payments are calculated using prior year budget
  - ▶ Computer Aid – Received in July (of following fiscal year)
  - ▶ Transfers to Fund 46 and 73 Trust can occur on or before July 30<sup>th</sup> (physical transfer rolling over fiscal years)



## How A Forecasting Tool Is Different

- ▶ A forecasting tool is an important tool to complement your cash flow process
- ▶ Provides trend data for year over year impact to “Fund Balance”
- ▶ Allows the District to better plan for future needs
  - ▶ Operational
  - ▶ Capital
  - ▶ Fiscal Cliffs





## How A Forecasting Tool Is Different (Continued)

- ▶ Forecast will project annual impact of assumptions:
  - ▶ Revenue increases
  - ▶ Salary / Benefit increases
  - ▶ Other shifts
- ▶ A forecast will not provide your cash in the bank



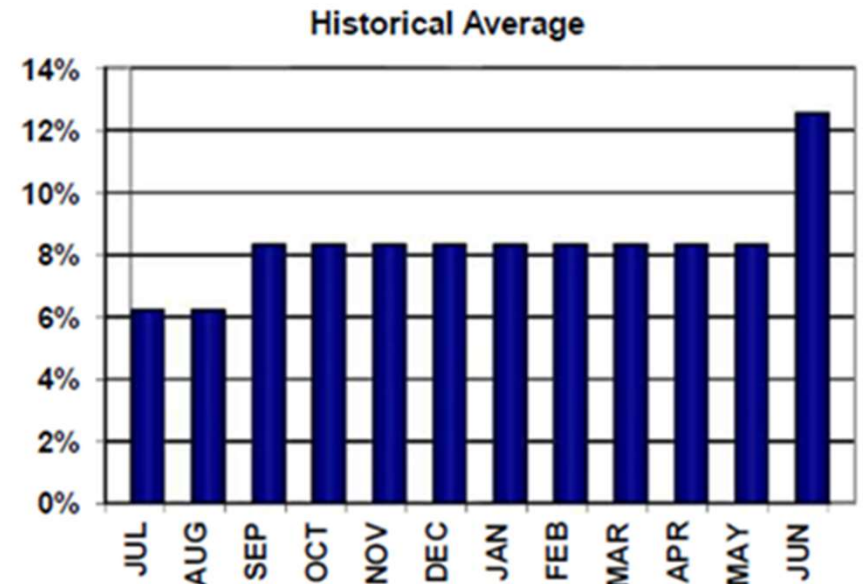
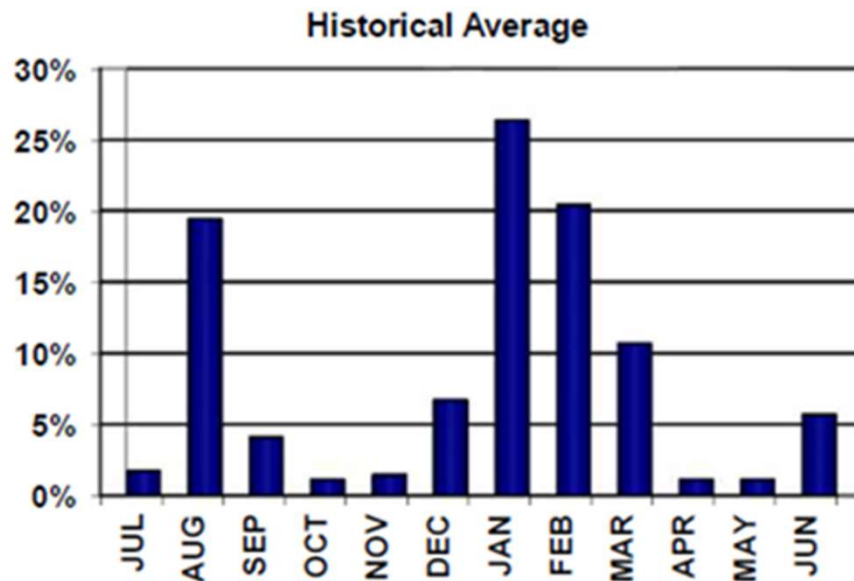
# Strategies to Prepare a Cash Flow

- ▶ Start with your current operating budget
  - ▶ Funds 10, 27, 50, 80 (revenue and expenditure budget)
  - ▶ Remove non-operating funds like debt service
  
- ▶ Analyze historical revenues and expenditures (actuals)
  - ▶ Be sure to remove any one-time expenditures, revenues, journal entries and transfers
  - ▶ Determine the actual revenue and expenditure amounts for each month (for at least the prior twelve months)



# Strategies to Prepare a Cash Flow (Continued)

- ▶ Most large revenue sources (tax levy and Equalization Aid) are received on a known schedule
- ▶ Expenditures are often relatively consistent throughout the year







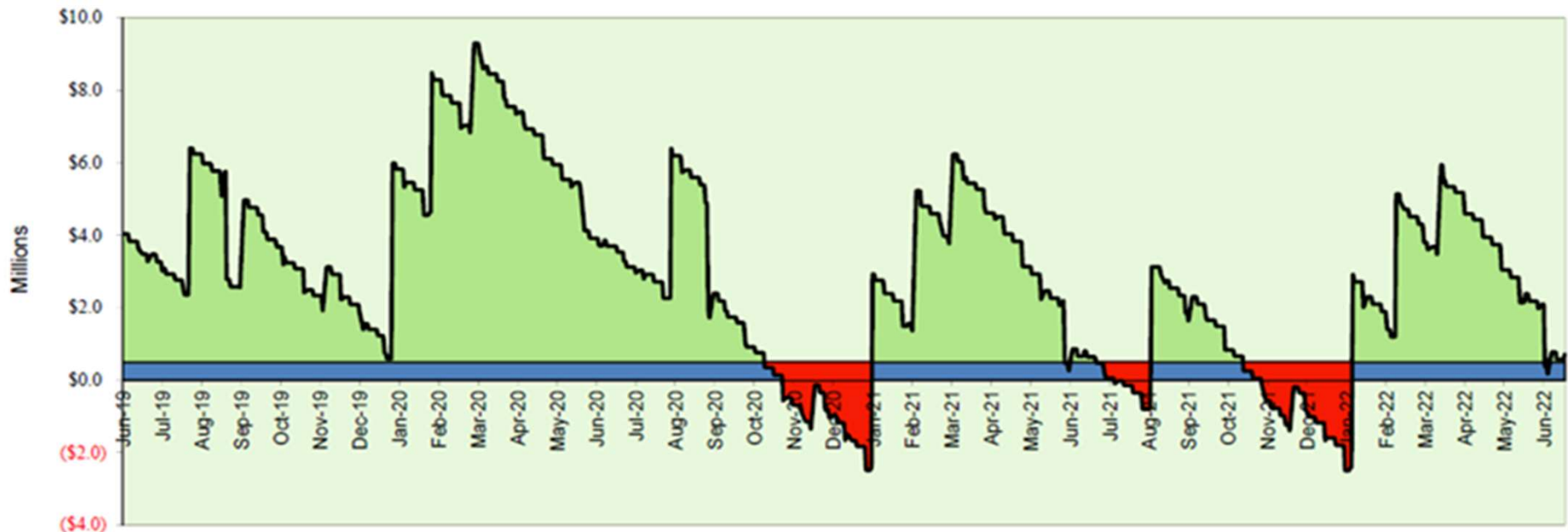
## Cash Flow for Short Term Borrowing (Continued)

- ▶ Why is cash flow important?
  - ▶ Portraying the District's Financial Health
  - ▶ Prudent financial planning
  - ▶ Rating Agencies
  
- ▶ Recent Moody's two notch downgrade where the report states one factor:
  - ▶ "The rating also considers the district's narrow financial position..."



# Cash Flow for Short Term Borrowing

- ▶ Use your cash flow analysis to help determine:
  - ▶ When you need to borrow
  - ▶ How much you need to borrow
  - ▶ When can you repay the borrowing





# Cash Flow Borrowing Options



Tax & Revenue Anticipation  
Promissory Notes (TRANS)



Line of Credit (LOC) With  
Local Financial Institution



Tax & Revenue Anticipation  
Promissory Notes

-Via Pooled Financing



Funding Provided Via  
Intergovernmental  
Relationships

County, City, Village, etc.

1 ▶

2 ▶

3 ▶

4 ▶



## Cash Flow for Short Term Borrowing

- ▶ Annually evaluate your projected cash position
- ▶ Review options at your disposal
  - ▶ Rating vs Non-Rating
  - ▶ Early payoff of issue (depending upon cashflow)
- ▶ Understand the impact of budget decisions on your long-term cash position





## Cash Flow for Investment Planning

- ▶ A detailed and accurate cash flow can be used to build an optimized investment schedule
  - ▶ Cover future liabilities
  - ▶ Extend maturity lengths
  - ▶ Capture the benefits of longer-term investing
  - ▶ Maximize interest income



## Cash Flow for Investment Planning (Continued)

- ▶ A Invest idle funds not needed for immediate cash flow needs
- ▶ Match investment maturities to liability “need” dates
- ▶ optimized investment schedule

| Investment Date |        | Maturity Date | # of Days | Amount      |
|-----------------|--------|---------------|-----------|-------------|
| Proposed        | Actual |               |           | Proposed    |
| 21-Jan-20       |        | 15-Sep-20     | 238       | \$700,000   |
| 20-Feb-20       |        | 15-Sep-20     | 208       | \$200,000   |
| 23-Mar-20       |        | 15-Sep-20     | 176       | \$1,400,000 |
| 23-Mar-20       |        | 15-Oct-20     | 206       | \$500,000   |
| 23-Mar-20       |        | 15-Dec-20     | 267       | \$500,000   |
| 23-Mar-20       |        | 30-Mar-21     | 372       | \$500,000   |
| 23-Mar-20       |        | 15-Apr-21     | 388       | \$500,000   |



# Cash Flow for Investment Planning (Continued)

## ▶ Analyze Investment Options

- ▶ Liquid Products
  - ▶ Checking, Money Market, Savings Deposit Accounts
- ▶ Fixed Rate Investment Products
  - ▶ Certificates of Deposit (CD's)
  - ▶ U.S. Treasury and Government Agency Securities

| Net Rates for illustration purposes only: |                                    |          |              |              |           |         |
|---|------------------------------------|----------|--------------|--------------|-----------|---------|
|   |                                    | 180 Days | 270 Days     | 1 Year       | 18 Months | 2 Years |
|   | Certificates of Deposit (\$250k) % | 4.65%    | 4.73%        | 4.86%        | 4.75%     | 4.90%   |
|   | Government Agency %                | 4.39%    | 4.67%        | 4.73%        | N/A       | N/A     |
| U.S. Government Treasury %                | 4.49%                              | 4.61%    | 4.67%        | 4.75%        | 4.62%     |         |
|   |                                    |          |              |              |           |         |
|   |                                    | WISC-IS  | ICS          | ICS          |           |         |
| Liquid Yields                             |                                    | 3.44%    | 3.68%        | 3.68%        |           |         |
|   |                                    |          |              |              |           |         |
| Collateral/Insurance/Rating               |                                    | S&P AAAm | FDIC Insured | FDIC Insured |           |         |

*\*\*Rates as of 11/9/22. Rates presented net of all fees. "WISC-IS" (WISC Investment Series). "ICS" (Insured Cash Sweep)*



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