

Unit-Wide Comprehensive Cash Flow Planning

July 16th, 2020 – AIM Mayors Institute

Meet the Presenters

Eric Reedy, CPA – President & Managing Partner – Reedy Financial Group, P.C.



- Graduated from Ball State University in 1992
 - Certified Public Accountant
- Over 25 years of experience with extensive knowledge of:
 - Utility Financial Management & Cost of Service Rate Studies
 - Municipal Finance
 - Budgeting
 - Accounting
 - Long-term Operational and Capital Improvement Planning
 - TIF/Economic Development
- Eric regularly attends AWWA and GFOA functions pertaining to the aforementioned topics

What Will We Be Discussing Today?

- Unit-Wide Cash Flow Data and Best Practices
- The Environment We Face Today
 - What can we expect and what do we need to consider?
- Bringing it All Together with the Financial Plan & Budgeting
 - How do we navigate today and the future?
- Cash Flow Opportunities
- Cash Flow Methods
- Closing Remarks

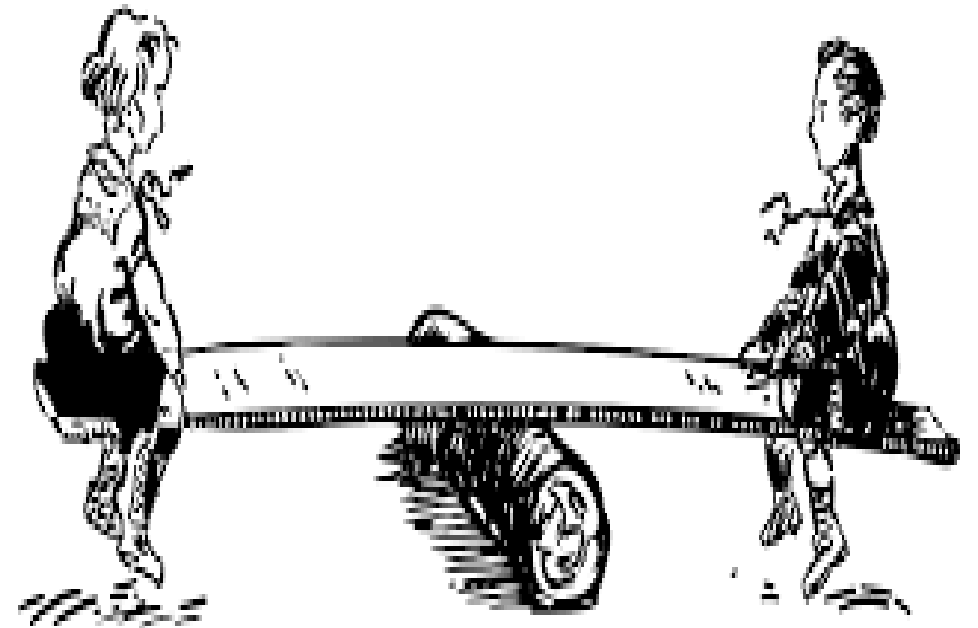


Fun Facts

- Today in history on July 16th, 1969 was the day Apollo 11 launched, carrying the first men to land on the moon

Why Do We Need Cash Reserves?

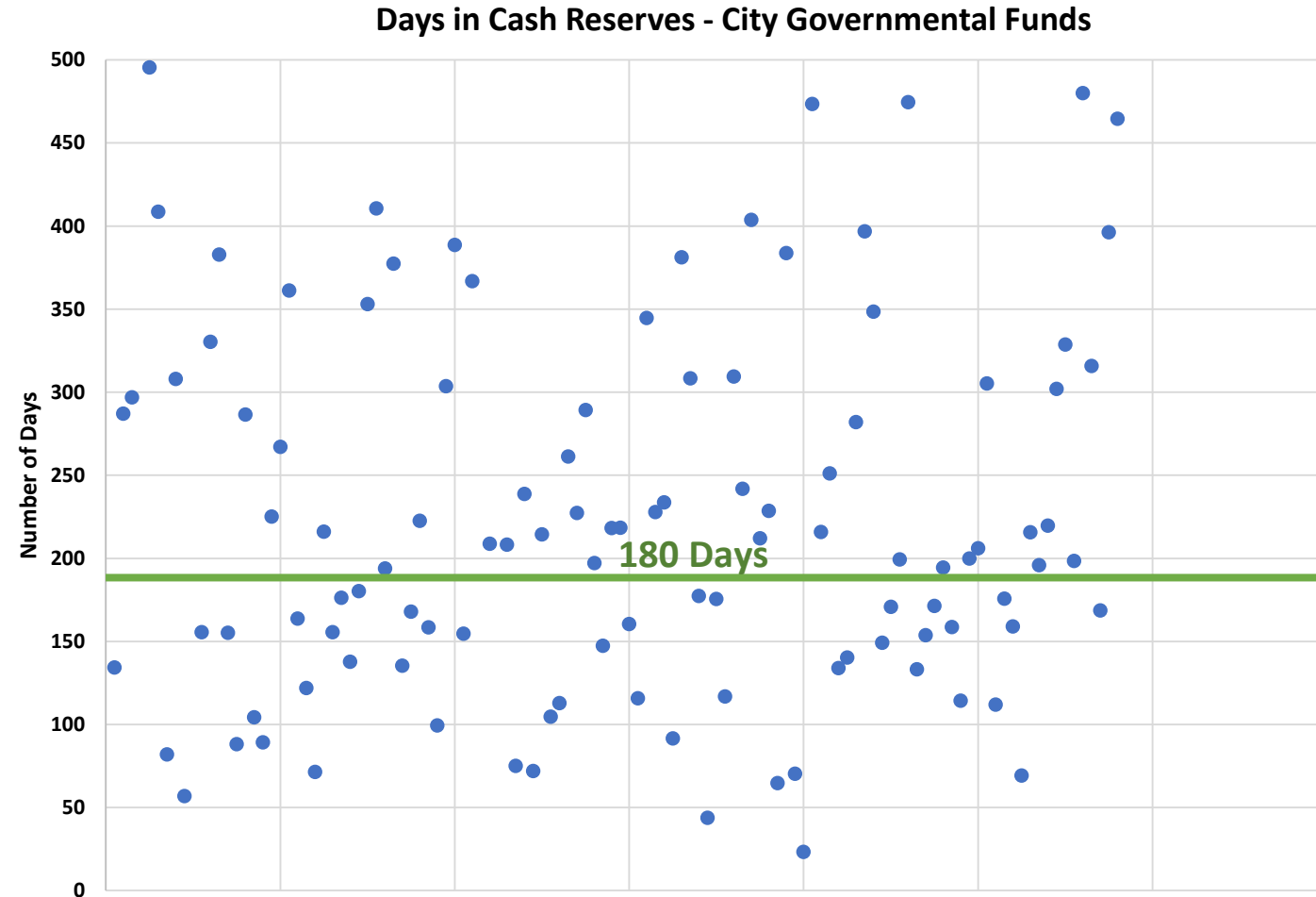
- It is crucial to maintain good cash flow due to the way local government funding works
- Municipalities typically receive the bulk of revenue only twice per year in the form of property tax distributions
- There are monthly revenue sources, such as Local Income Tax and charges for services but these are only secondary revenue sources
- Meanwhile the City has to maintain essential services year-round
- Additionally, unforeseeable events (COVID-19) happen



City-Wide Days in Cash Reserves

- Within this plot chart:

- Average days reserve = 234
- Median days reserve = 209
- 17% of all cities in the State are over 365 days in cash reserves
- 16% are greater than 270 and less than 365 days
- 26% are greater than 180 and less than 270 days
- 31% are greater than 90 and less than 180 days
- And 10% are less than 90 days in cash reserves



How Do We Get to the Green Line?

- Implement GFOA best practices into your Long-Term Operating and Capital Improvement Planning:
 - Financial Policy
 - Cash Reserves
 - Tax Rate Planning
 - Appeals, max Levy, income tax
 - Goals
 - Economic development/service levels
 - Debt Policy
 - Outlines specific practices regarding issuing new debt and periodic reporting of outstanding debt
 - Investment Policy
 - Lets constituents & investors know you are investing tax dollars according to a sound financial plan & reporting the status periodically



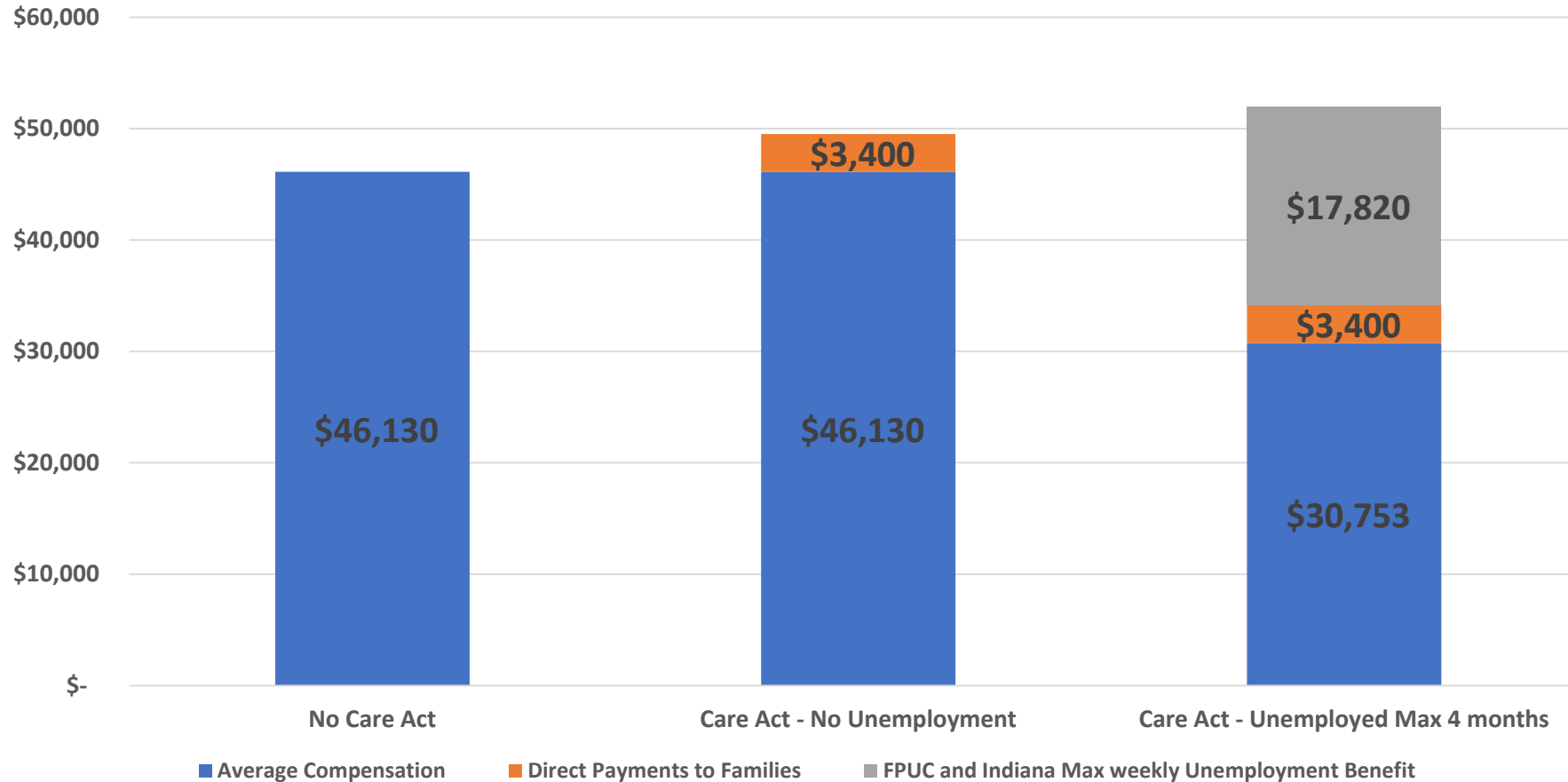
The Environment We Face Today

- What can we expect and what do we need to consider?
 - CARES Act
 - Implications on:
 - Future Income Tax (LIT)
 - Property Tax
 - Highway Funding
 - Other Revenue Sources



Coronavirus, Relief & Economic Security (CARES) Act

COVID 19 Impact on Average Household Income - Employed and Unemployed



Notes

- Designed to ensure continued payroll during the pandemic
- Paycheck Protection Program (PPP): Forgivable loans to small businesses under 500 employees
- Direct Payments to Families: \$1,200 per individual & \$500 to each child with phase out starting at \$75,000
- Federal Pandemic Unemployment Compensation: \$600 on top of normal unemployment for up to 4 months

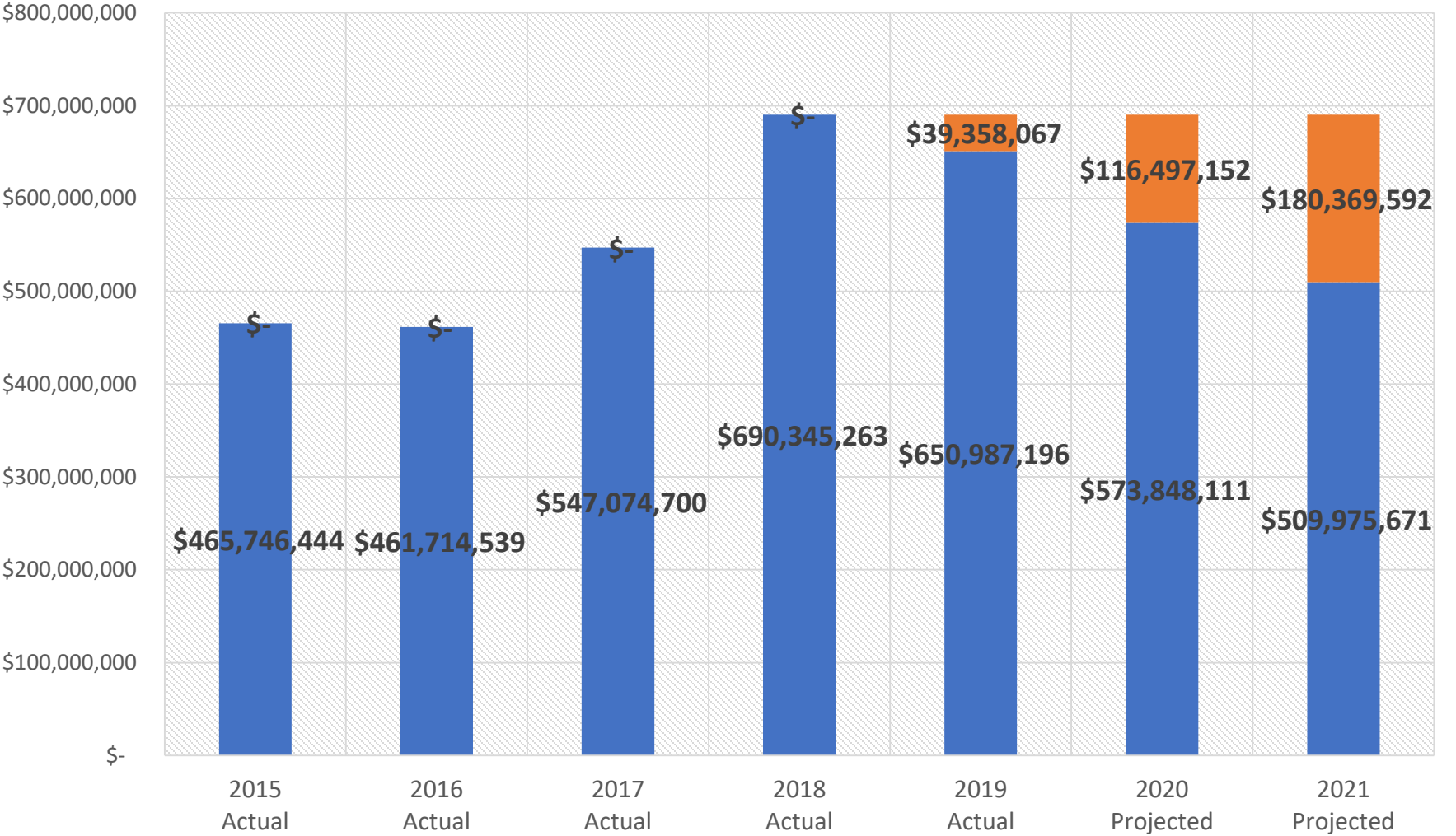
What else should we watch for?

- **Statewide revenue estimates are down**
 - Biggest \$ impact = MVH Distributions
- **Charges for services**
- **Property Taxes**
- **Income Tax (LIT)**



Where Have we Been and Where are We Heading

Indiana - MVH/LRS Total Distributions to Local Units Have Decreased W/ No Tax Rate Decreases

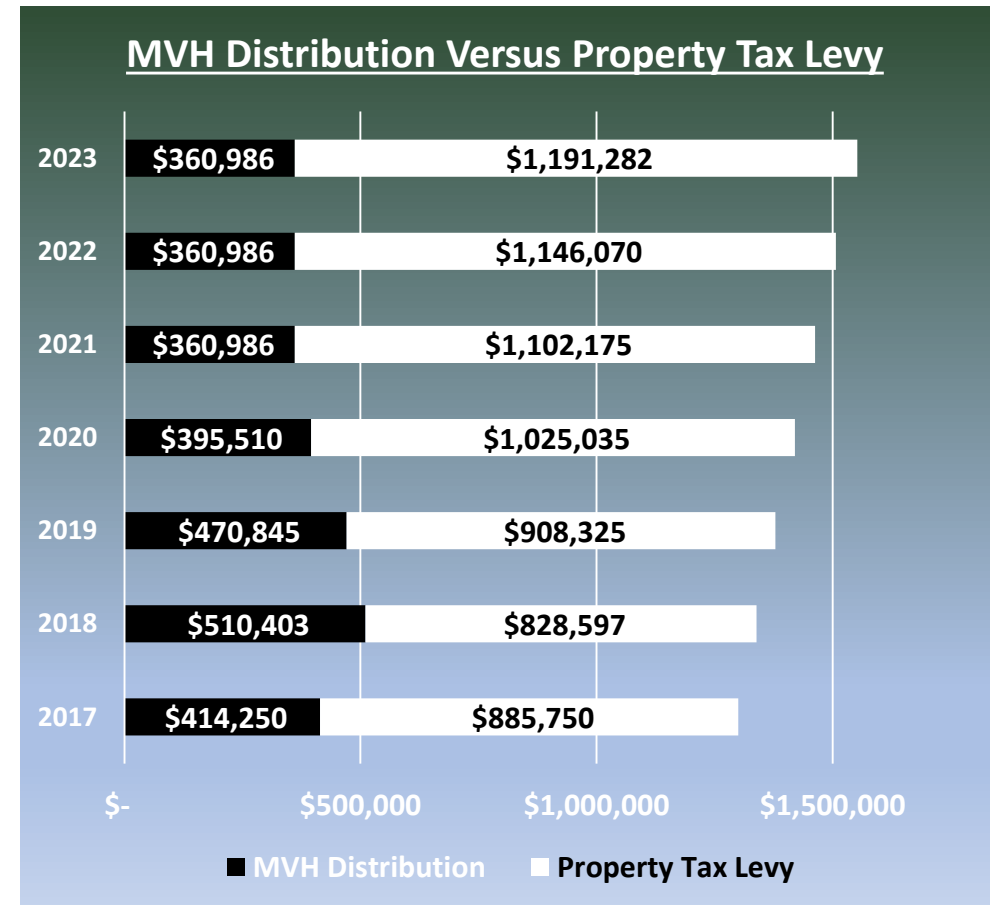


Notes

- Since 2018 local units have experienced a continued decline in collections of Highway Revenue
- From 2019 to 2020 the State recommended budgeting a reduction of 8%
- While in 2021 it is being stated that we may see as much as an additional 16% reduction
- It is imperative that each unit plans their 2021 budget accordingly

What happens when revenue declines?

- When MVH Distributions decrease, we have to make up that revenue somehow
- Typically, this is done by allocating more property tax levy to MVH
- Remember, as the levy in one fund grows, there is less for other funds
- It is imperative to plan cash flow accordingly!

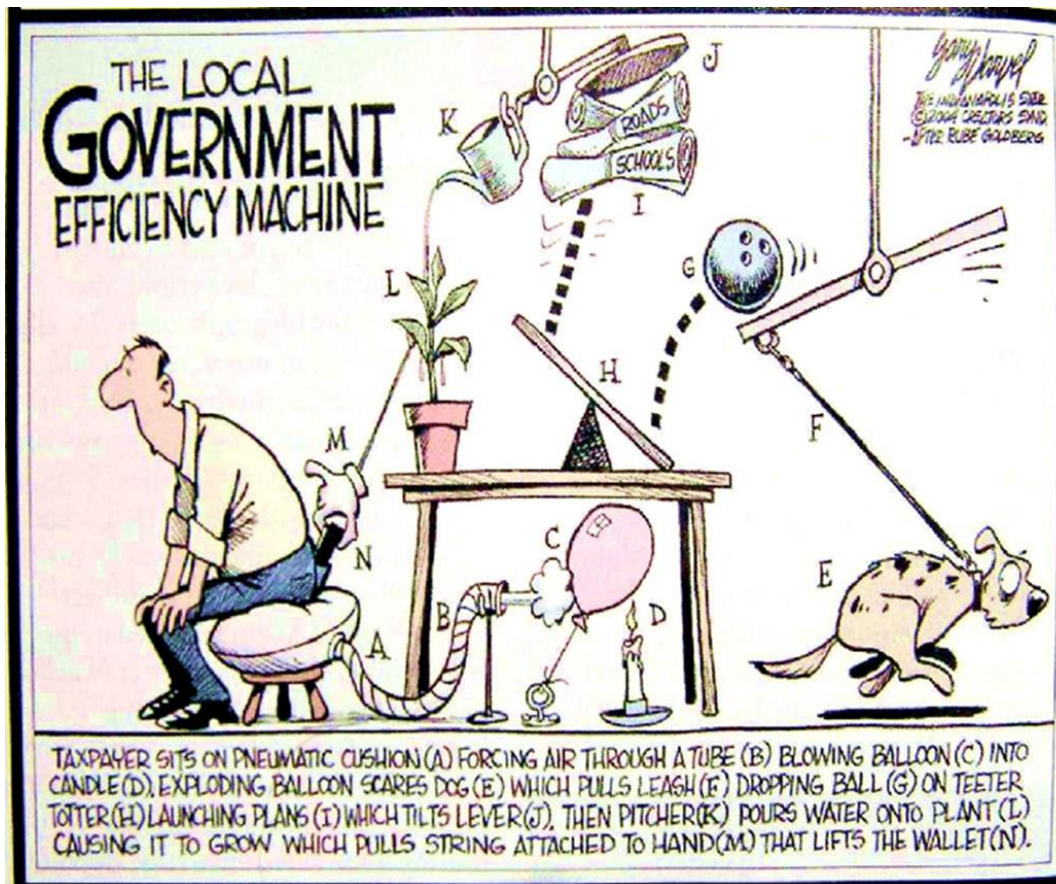


Other Constraints to Consider as we Plan for 2021

- **Charges for services should be reviewed/updated accordingly**
- **Impacts to Property Taxes**
 - These impacts have been county specific to this point
 - Some counties are collecting normal amounts and some are significantly down
 - Always good to communicate with your County regarding collection amounts to remain proactive
- **Future impact to Income Tax is still an unknown**
 - CARES Act expected to offset income reductions thru July – after July will need to see either a return to pre-COVID employment numbers or another round of enhanced unemployment payments
 - Monitor your county's income tax balances – if you received supplemental LIT distributions this year, you are in a better position for income taxes to not be impacted
 - Impacts will be reflected in 2022 Distributions
- **We must remain proactive in our planning approach as what we do today will affect the outcome of tomorrow!**



Bringing it All Together with the Financial Plan & Budget



- How do we navigate today and the future?

How do We Manage Our Constraints While Meeting Our Goals?

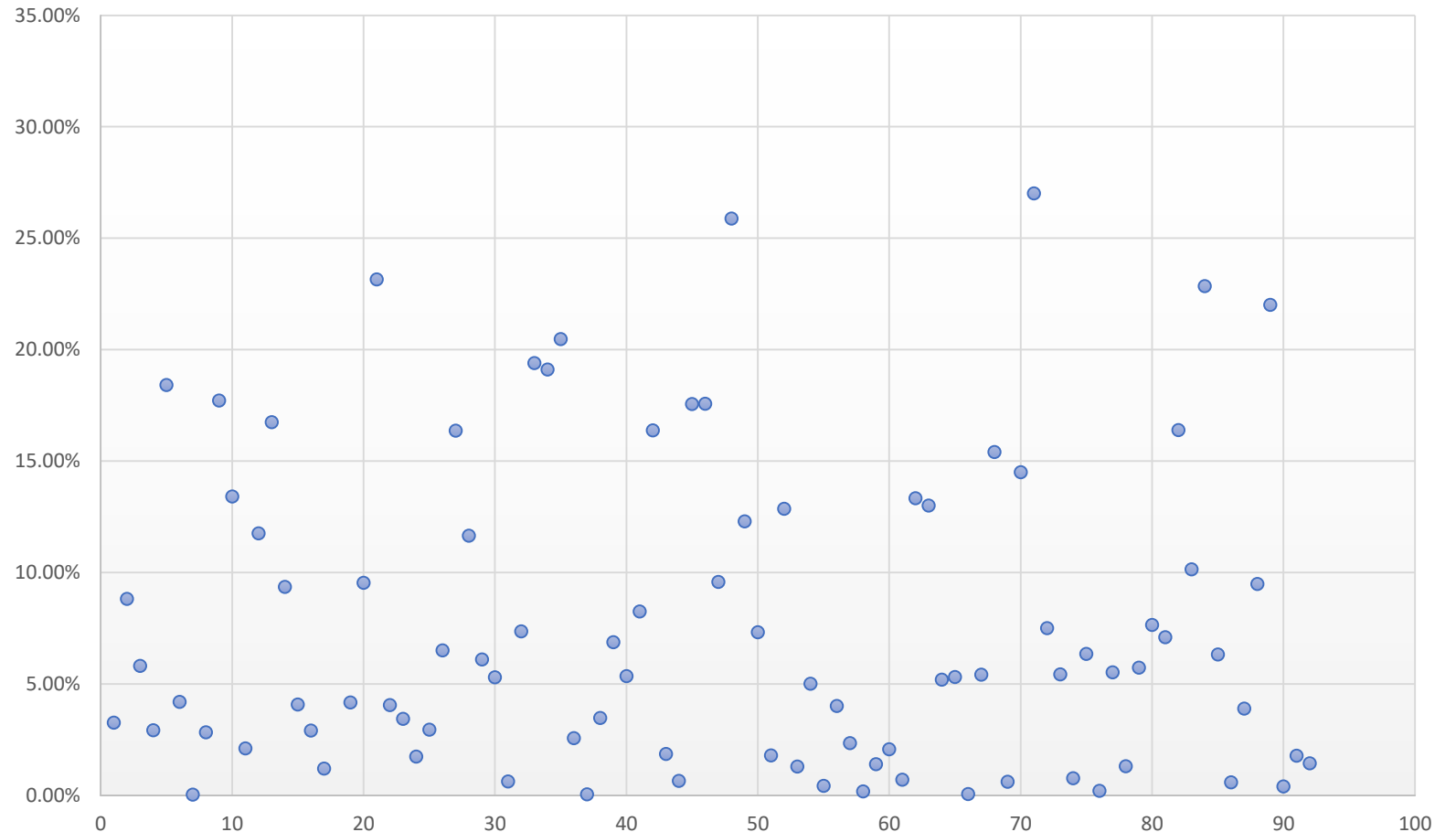
- **We must remain Proactive rather than Reactive to our financial environment by building a plan that achieves cash flow objectives by:**
 - **Managing circuit breaker**
 - **Maintaining or improving essential services**
 - **Funding capital and economic development**
 - **Considering bond rating**
 - **Mitigating obstacles that arise**



Where Does Your Unit Align with Circuit Breaker?

- The plot chart represents % of circuit breaker (“CB”) for all 92 counties
 - Avg. CB = 7.52%
 - Median = 5.07%
- High CB range = crucial to have good property tax planning

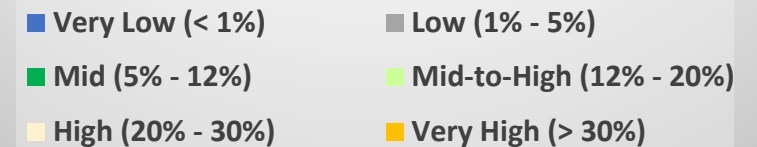
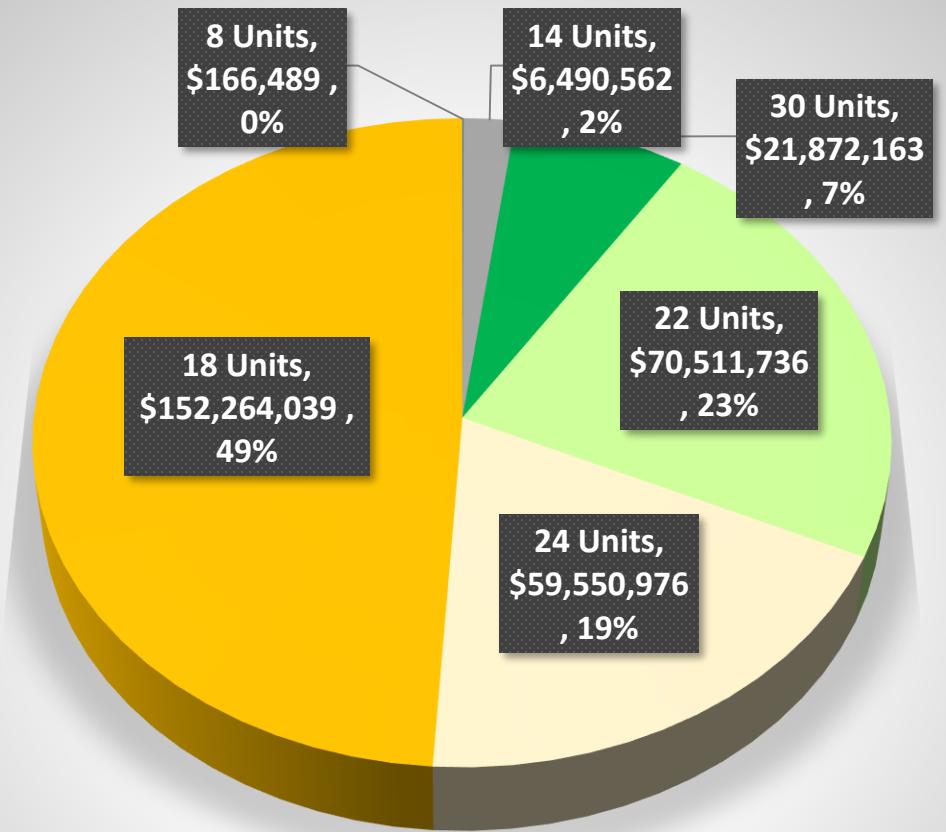
2020 Total Circuit Breaker % by County



Circuit Breaker Data Specific to Cities

- What slice of the pie does your unit fall in?
- Remember high CB credit % forces reduced spending if not managed
- Understanding your CB environment is a crucial factor in the decision-making process

Circuit Breaker - All Cities



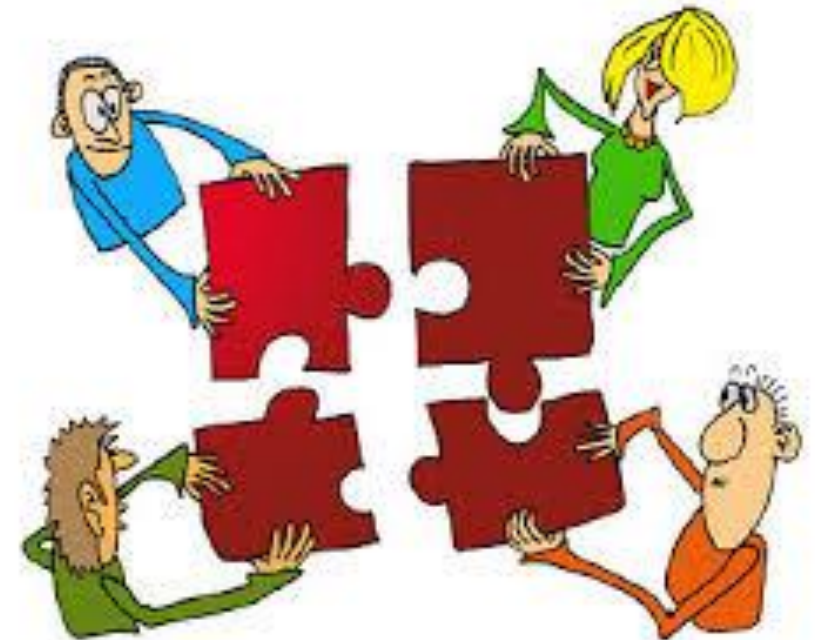
Planning for the Worst and Hoping for the Best

- While unforeseen circumstances will always exist, we must continue to set goals and push forward with planning in our communities by:
 - Maintaining or improving essential services (health insurance, raises, new hires)
 - Funding capital and economic development (asset rotation, business development, infrastructure)
 - Building up our bond rating (level-debt strategy, policies & follow-through)
 - Mitigating obstacles that arise (AV fluctuation, circuit breaker, health/other emergencies)
- Proper planning allows for **CONSISTENCY** throughout the Budgeting Process



With a Strong Plan in Place, What Other Opportunities Does My Unit Have to Generate Cash Flow?

- Is your unit utilizing TIF effectively as a tool for cash flow?
- Are your utilities working for you?
- Are you properly leveraging debt to fund capital needs?



Other Cash Flow Opportunities (TIF)

- **Consider Your RDC in Your Cash Flow Management**
 - **Ex: Delay in City settlement results in a deficiency in capital need**
 - **Potential Solution: Fund capital need with TIF (if eligible) or utilize TIF cash flow & repay by the end of the year**
- **TIF Margin**
 - **In recent studies it has been found that assessed value generates more revenue through utilization of TIF**
- **TIF Bond**
 - **Commonly used for capital and projects that mutually benefit City and TIF Allocation Area**



Are Your Utilities Working for You?

- **Shared Expenses**
 - Salary ordinance restructure for administrative positions
- **Payment in lieu of taxes (“PILOT”)**
 - This is a major subsidy or offset for the City General Fund
- **Temporary loans**
 - To offset cash flow delays throughout the year
- **Stormwater, trash, etc. set up as user fee funds rather than property tax funds**



What About Debt Structure?

- Statute allows units to levy amount necessary to satisfy debt obligations
 - 2% Constitutional Debt Limit (*IC 36-1-15*)
 - How full is your glass?
- Building Corporation Lease Rentals are outside the debt limit
- Revenue bonds
- Planning needed to identify debt issuance opportunities without tax rate swings

How Full is our Glass? - Principal Outstanding Vs Debt Limit



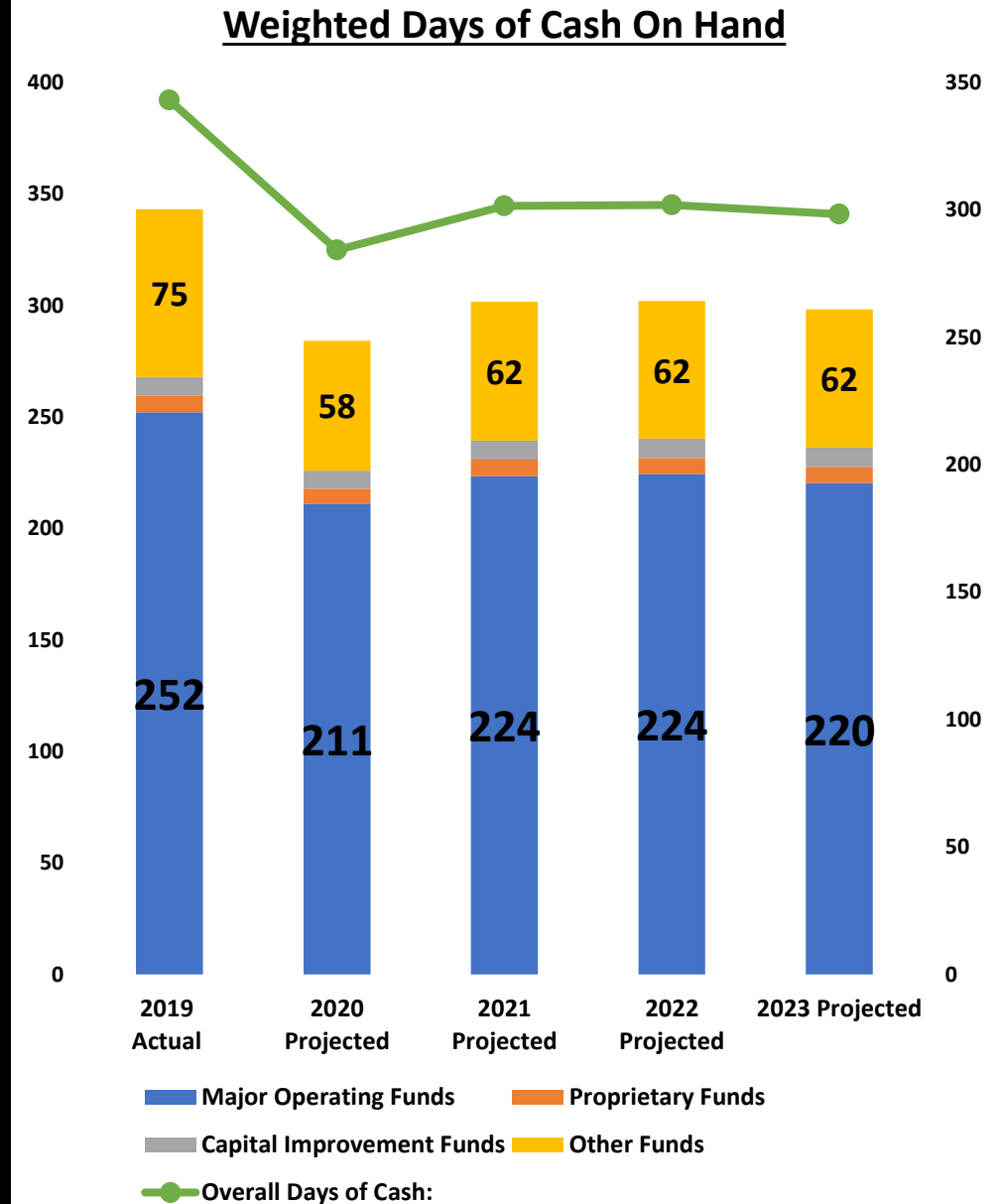
What is the Best Cash Flow Method for My Unit?

- Actual cash flow models can vary from unit to unit
 - The following slides represent various options that incorporate the planning process as well as best practices used every day



Weighted Average Model

- The graph shows days of cash on hand – weighted by fund type
- 2019 = 342 Days Cash Reserve
 - Fund types (by color) are contributing x number of days to that total (i.e. 252 major ops. funds)
- This Method shows what each subcategory of funds is contributing to the overall cash reserves
- As the Plan currently stands, cash is slowly declining but still well above the recommended 180 days



Cash Management Model

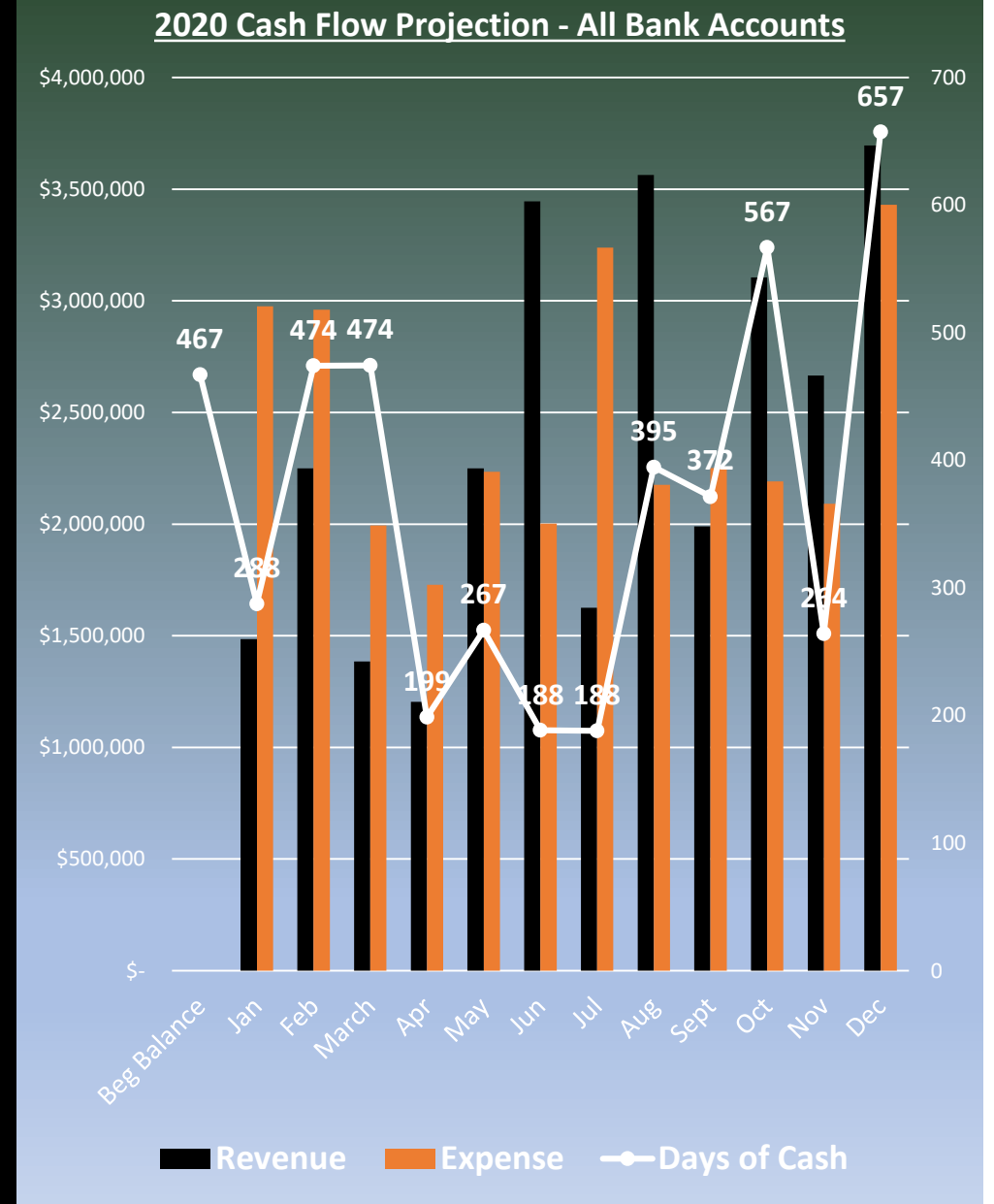
2019 Actual										
	Spending	Surplus / (Deficit)	Ending Cash	# of Days in Cash Reserve	% Cash Reserve	% of Total Spending	Target Cash Reserve %	Target YE Cash Reserve Balance	Over / (Under) Target Balance	% of Total Target Balance
Subtotal - Major Operating Funds:	\$ 9,614,675	\$ (237,130)	\$ 7,333,022	278	76%	91%	50%	\$ 4,764,363	\$ 2,568,659	96%
Subtotal - Proprietary Funds:	\$ 259,000	\$ (5,094)	\$ 216,517	305	84%	2%	50%	\$ 129,500	\$ 87,016	3%
Subtotal - Capital Improvement Funds:	\$ 110,430	\$ 54,056	\$ 240,575	795	218%	1%	50%	\$ 55,215	\$ 185,360	1%
Subtotal - Other Funds:	\$ 630,455	\$ 310,231	\$ 2,187,197	1266	347%	6%	4%	\$ 27,782	\$ 2,159,415	1%
Grand Total - 2019 Actual:	\$ 10,614,561	\$ 122,062	\$ 9,977,311	343	94%	100%	47%	\$ 4,976,860	\$ 5,000,451	100%

- This chart allows for a unit to identify:
 - Actual % and number of days in cash reserves by fund type
 - Targeted cash reserve goals as well as tracking how close each category is to achieving its goals
 - Additional spending, cash amount and budget surplus/(deficit) data by fund type

Going One Layer Deeper...

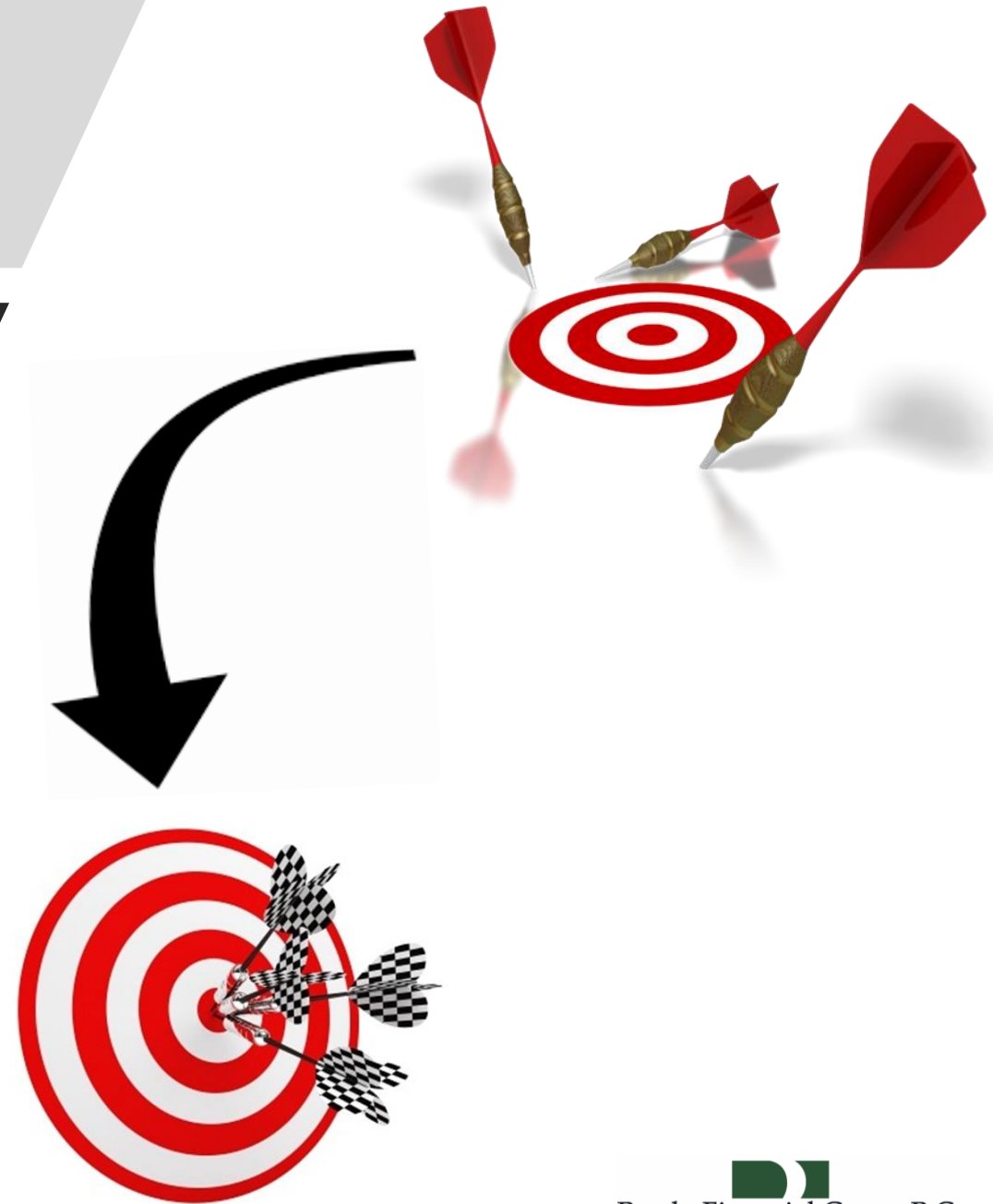
Ok, You've Incorporated GFOA Best Practices into Your Plan, considered all revenue constraints now and in the future, outlined your budgeting goals for operations and capital...

- Now, Use the Revenue and Expenditure Inputs in Your Plan to Manage Cash Flow
- GFOA Recommendation = at least monthly cash flow forecasting as represented in this graph
 - Weekly/daily depending on complexity



Hitting the Mark

- Proper cash flow planning not only allows for your unit to better identify the ebbs and flows of cash throughout the year, but also provides a tool for:
 - Elected officials to better understand the financial landscape entrusted to them
 - An easily comprehensible tool for communicating to your constituents
 - And ultimately allows you to achieve your goals by hitting the bullseye now and in the future



Closing Remarks/Q & A

- Thank you for taking the time to join us today!
- Please feel free to ask questions and/or make comments

