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Cash Flow and Short Term Borrowing

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Today's Presenters| PMA & sun Prairie Area SD



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Today's Agenda

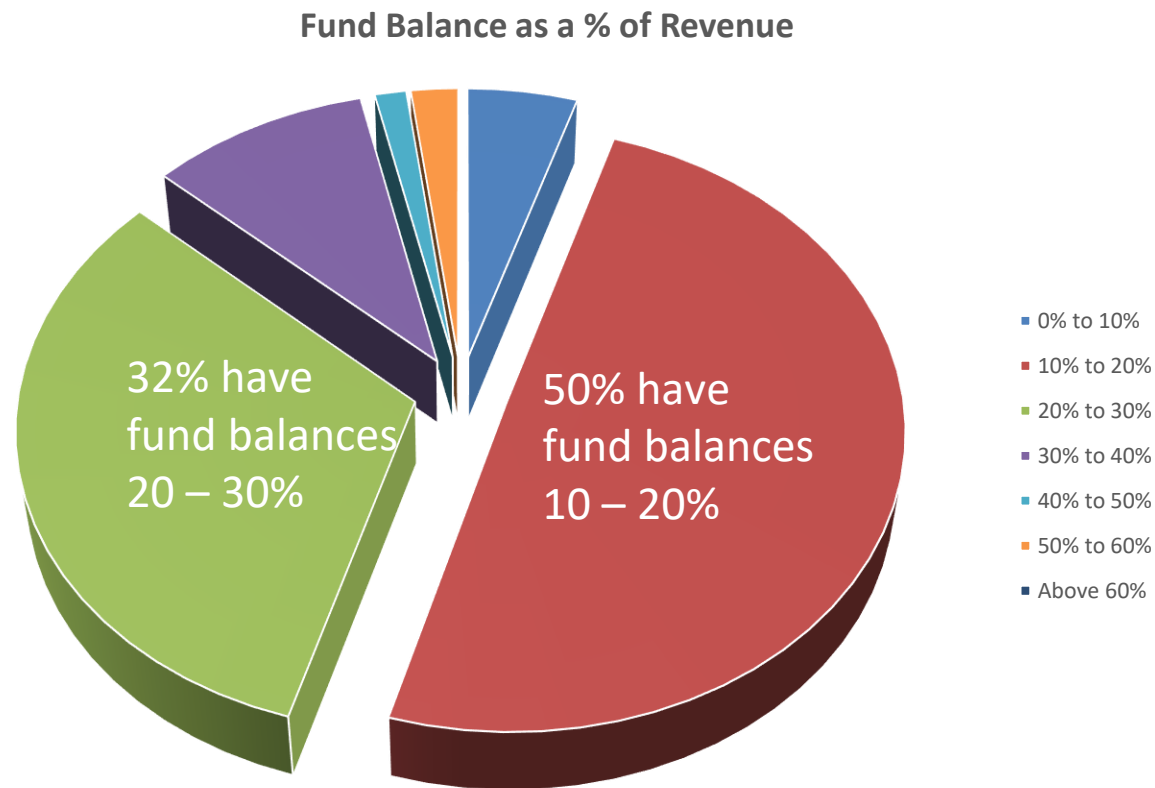
- ▶ Understanding Fund Balance vs. Cash Balance
- ▶ What is a cash flow and why is it important?
- ▶ What are the next steps if I have a projected negative cash balance?

Understanding Fund Balance vs. Cash Balance



Fund Balance vs. Cash Balance

- ▶ Data for 143 School Districts that reported short term borrowing interest in 2019-20



Source: June 30, 2020 Annual Reports submitted to DPI



Fund Balance vs. Cash Balance

- ▶ Evaluating other Relevant Factors
 - ▶ Calculation of “Net Cash”
 - ▶ $\text{Net Cash} = \text{Cash} + \text{Investments} - \text{Temporary Notes Payable}$
 - ▶ Calculation of liquidity by rating agencies
 - ▶ 5% day after repayment standard



Fund Balance vs. Cash Balance

- ▶ Evaluating other Relevant Factors
 - ▶ Revenue allocation – Tax Revenue vs. State Aid
 - ▶ Districts highly reliant on one vs. the other will need to borrow for cash flow purposes even with higher percentage of fund balance
 - ▶ Example: District with high Fund Balance but heavily reliant on Property Tax Levy



What is a cash flow and why is it important?



What is a cash flow?

- ▶ 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 have a cash flow?

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
- ▶ Provide continuity in the business office
- ▶ Specific strategies in place when changes to key personnel occur



What data you need for an effective cash flow

- ▶ Monthly Data (cash basis) by Fund:
 - ▶ Revenue reports
 - ▶ Expenditure Reports
- ▶ Build 3-5 years of history
- ▶ Budget by Fund
- ▶ Outstanding debt obligations (short and long term)



What happens with the data

- ▶ Cash flow is built with data collected
- ▶ Followup discussion:
 - ▶ Outlying trends in data
 - ▶ Appropriate liquidity level
 - ▶ Identification of cash low point to identify appropriate borrowing amount
- ▶ Potential investment opportunities identified



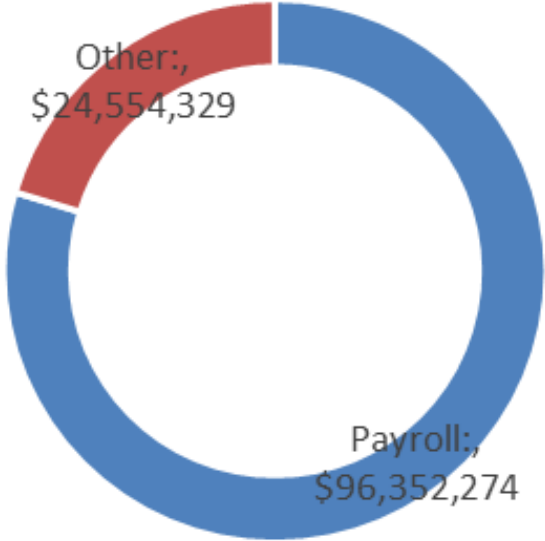
An effective cash flow should...

- ▶ Project the timing and amount of expenses/revenues
- ▶ Identify the timing and amount of cash excess or shortages
- ▶ Establish and maintain comfortable liquidity level
- ▶ Identify fiscal trends
- ▶ Provide administrative efficiency



Expenditure budget breakdown

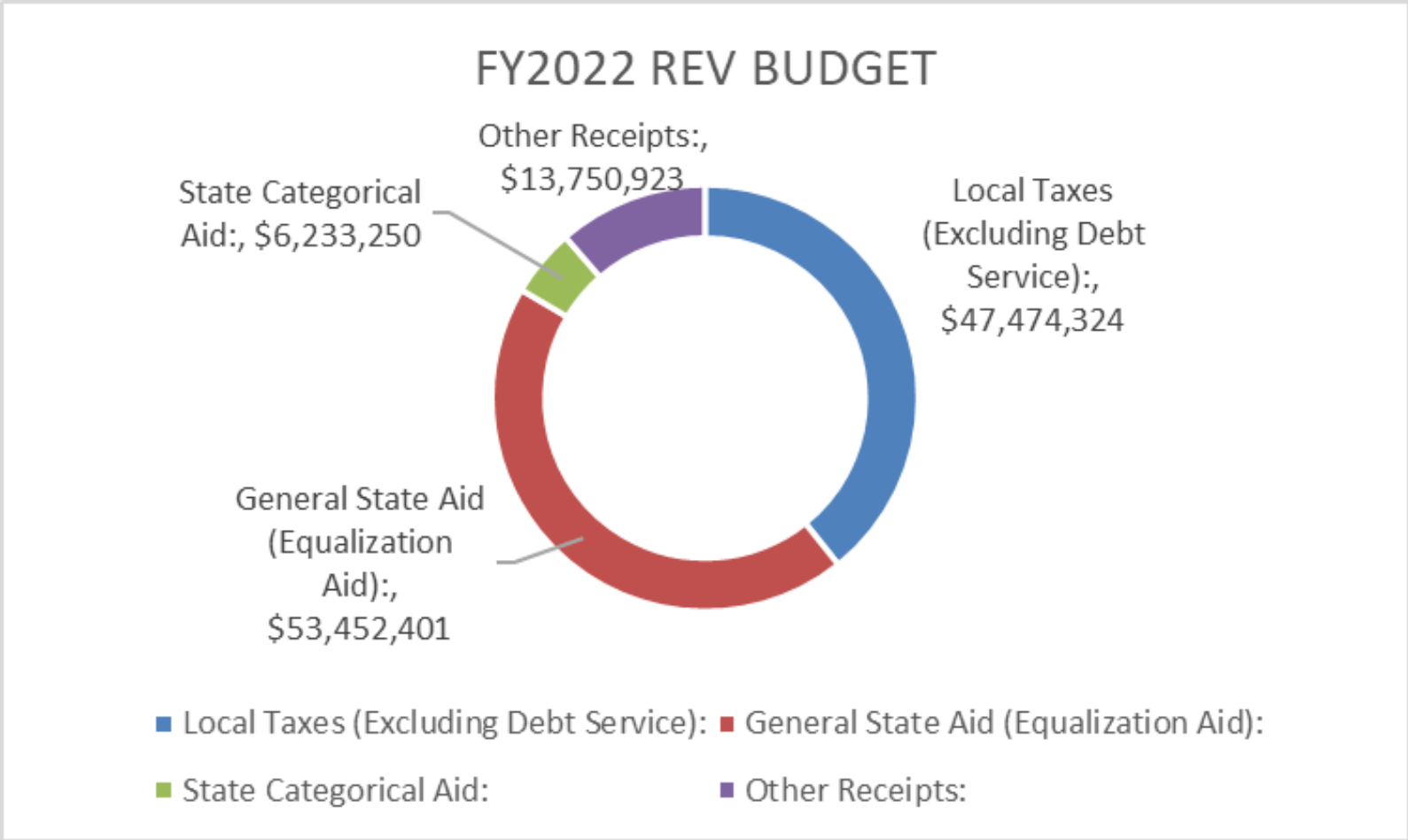
2021-22 Expenditure Budget



■ Payroll: ■ Other:



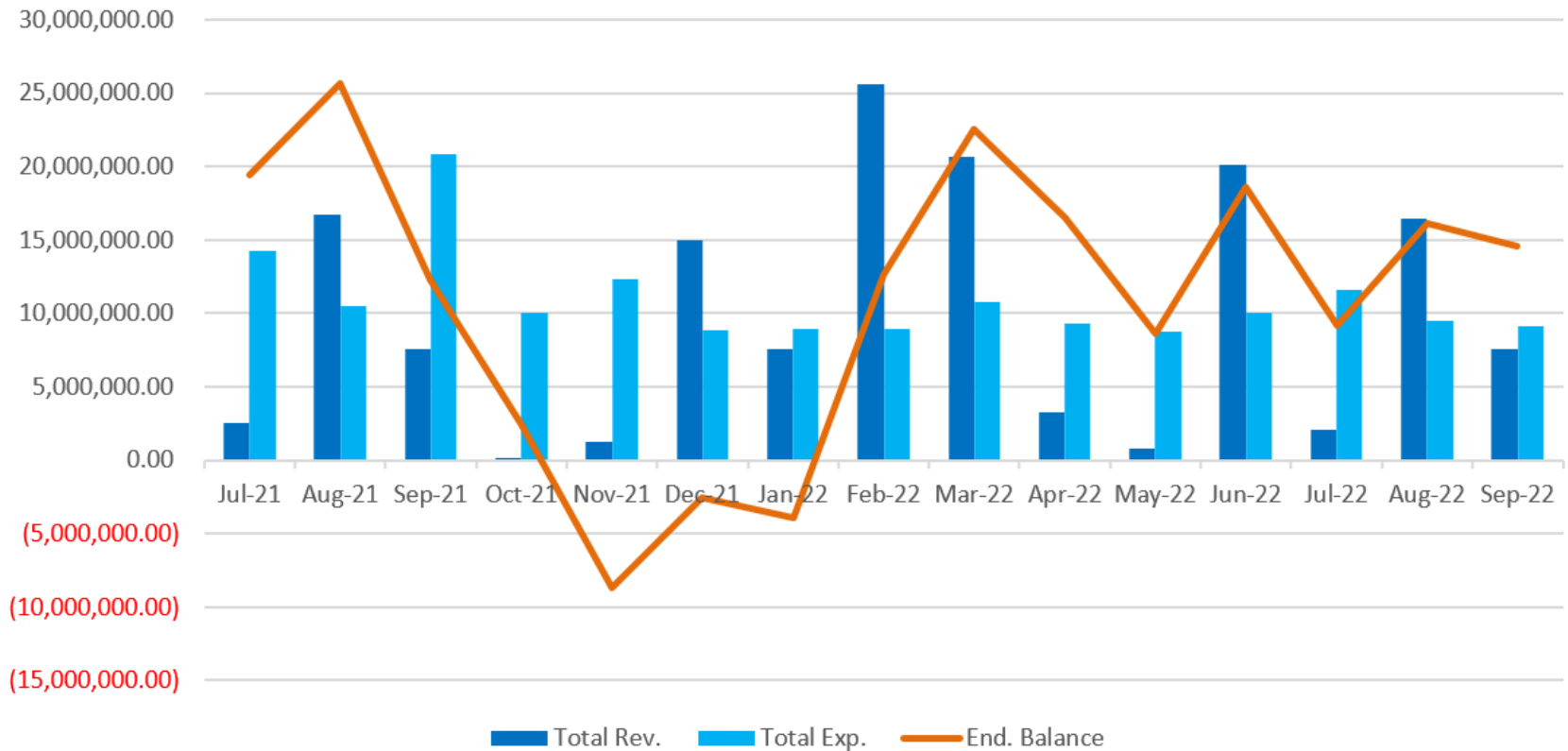
Revenue budget breakdown





Breakdown of Expenditure and Revenue

2021-22 Cash Flow Graph





Weekly Detail of Cash Low Point

Weekly Summary of Maximum Cash Shortfall December 2021

Week	Revenues	Note Proceeds	Expenditures	Note Payments	Cash Balance
WK1 (12/1 - 12/3)	-	-	140,617	-	(8,811,709)
WK2 (12/6 - 12/10)	13,942,908	-	4,213,305	-	917,894
WK3 (12/13 - 12/17)	-	-	140,617	-	777,278
WK4 (12/20 - 12/24)	810,000	-	4,213,305	-	(2,626,027)
WK5 (12/27 - 12/31)	207,185	-	140,617	-	(2,559,459)



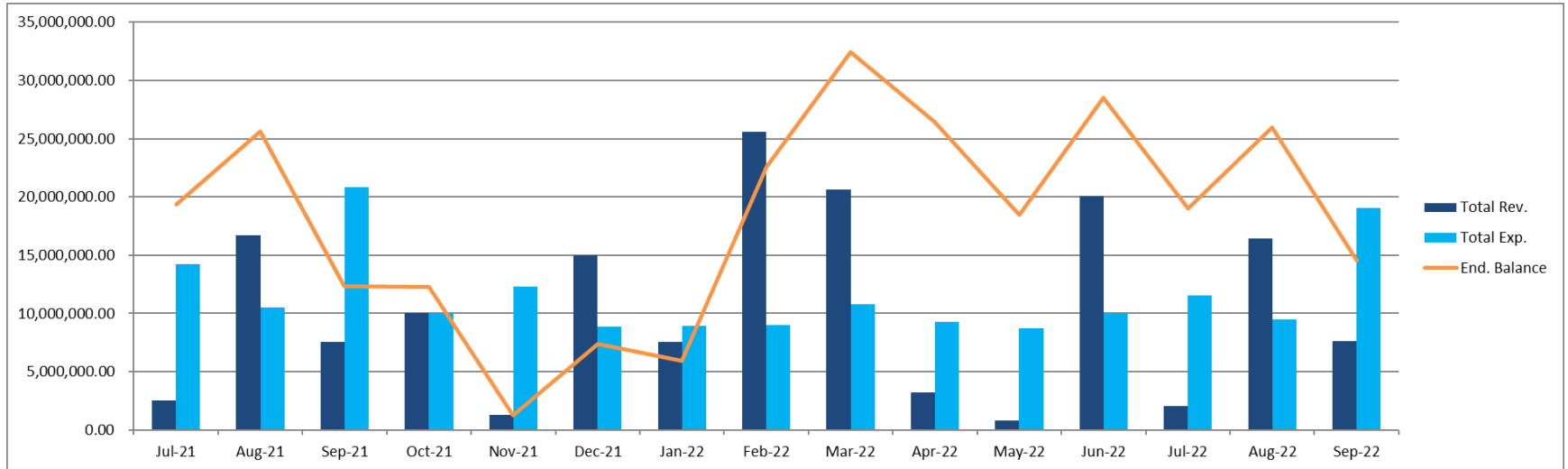
The power of a good plan

A detailed and accurate cash flow plan can be used to build an optimized investment schedule that can:

- ▶ Cover expenses
- ▶ Extend maturity lengths
- ▶ Capture the benefits of longer-term investing
- ▶ Maximize interest income



Building an Investment Plan





Allowable investments

Review your investment policy to make sure that you are following District policy and WI state statutes for allowable investments.



Government Securities

U.S. Treasuries
U.S. Government Agencies



Time Deposits

Certificates of Deposit
FDIC Insured CD's
Collateralized CD's



LGIP's

Local Government Investment Pool
Wisconsin Investment Series Cooperative



Other

Municipal Bonds
Repurchase Agreements
Commercial Paper



Building an Investment Plan

Sun Prairie Area School District - FY22 Cash Flow							
Proposed Investments							
ID #	Investment Date		Maturity Date	# of Days	Amount		Investment Type
	Proposed	Actual			Proposed	Actual	
1	20-Feb-22		09-Apr-22	48	\$500,000		
2	20-Feb-22		24-Apr-22	63	\$500,000		
3	20-Feb-22		09-May-22	78	\$1,000,000		
4	20-Feb-22		24-May-22	93	\$1,000,000		
5	20-Feb-22		24-Sep-22	216	\$2,000,000		

What are the next steps if I have a projected negative cash balance?



Cash flow borrowing –Legal requirements

▶ Wisconsin state statute 67.12(8). Temporary borrowing by school board

- ▶ The school board of any common, union high school or unified school district may:
 - ▶ After the tax for operation and maintenance of the schools for the current school year has been voted, borrow money as needed to meet the immediate expenses of operating and maintaining the public instruction in the school district during the current school year

▶ Timing of borrowing

- ▶ Common school districts –After annual meeting
- ▶ Unified school districts –After board votes on levy
- ▶ Guidelines for closing of borrowing; sale can occur prior

▶ Allowable term of borrowing

- ▶ Must mature by November 1 of the school year commencing after the date of the loan and not longer than 13 months from the closing date



Cash flow borrowing –Legal requirements

Calculating the Maximum Borrowing Amount

“SMALL ISSUERS”

A school district that in any calendar year issues no more than \$15 million in tax-exempt obligations (and no more than \$5 million of such obligations are used to finance expenditures other than for construction of public school facilities (such as cash flow borrowings and advance refundings)) will qualify as a "small issuer" and be exempt from the rebate requirements of the IRS Code.

Working Cash Reserves Calculation:

Working Capital Deficit
<i>NOTES: Maximum Deficit, may need to break out daily of weekly data</i>
PLUS: Reasonable Working Capital Reserve
<i>NOTES: 5% of Prior Year's Actual Working Capital Expenditures Working Capital Expenditures = Aggregate Amount of Expenditures Paid out of Last Year's Revenues Exclude Funds 30, 40 and 90</i>
EQUALS: Maximum Permissible Borrowing Amount



Cash flow borrowing –Legal requirements

Calculating the Maximum Borrowing Amount

“SAFE HARBOR”

A school district that in any calendar year issues more than \$5 million for cash flow purposes and other non-construction purposes such as advance refundings (as defined in the Code) will not qualify as a "small issuer" and should continue to use the "safe harbor" in sizing its borrowing to qualify for an exception to the rebate requirements discussed below.

If within six months after borrowing, a district's actual "cumulative cash flow deficit" (determined without regard to reasonable cash balance) exceeds 90% of the proceeds of borrowing, the district would qualify for the “safe harbor” exception.

The maximum permissible borrowing amount is calculated as follows:

Working Capital Deficit
<i>NOTES: Maximum Deficit, may need to break out daily of weekly data</i>
DIVIDED BY: 90%
EQUALS: Maximum Permissible Borrowing Amount

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



1 ▶



2 ▶



3 ▶



Wisconsin TRAN market

- ▶ Bidding in Wisconsin TRAN market is volatile and highly demand-driven
- ▶ Have you noticed that there are fewer bids on your TRAN?
- ▶ What are the factors influencing investor participation?
- ▶ Municipal market is becoming more regulated and transparent
- ▶ Result – non-rated, minimal disclosure debt issuance attracts a relatively small universe of potential buyers

- ▶ Methods to alleviate some of the volatility
 - ▶ Consider a rated TRAN
 - ▶ Rated TRANs should be contemplated for stand-alone issues in excess of \$5 million, or pooled issues of any amount



Credit rating analysis

- ▶ Key variables in a credit rating analysis
 - ▶ Management
 - ▶ Local economy
 - ▶ Financial position
 - ▶ Debt position
- ▶ Higher credit rating = lower cost of borrowing
- ▶ Communicating the District's immediate and long-term financial picture is paramount to a successful credit rating presentation
- ▶ Structural imbalance is the biggest threat to maintaining a credit rating



Preparing for your next credit rating call

- ▶ Key variables in a credit rating analysis
 - ▶ Management
 - ▶ Local economy
 - ▶ Financial position
 - ▶ Debt position
- ▶ Does the issuer have...
 - ▶ A fund balance policy? A debt policy?
 - ▶ A capital improvement plan with needs and funding sources identified that is updated annually?
 - ▶ Long range financial projections?
- ▶ How often does the administration provide a report on investment holdings to the Board? (at least quarterly is suggested)
- ▶ How often does the administration report on intra-year trends in revenues and expenditures?
- ▶ Is the budget amended and for what reasons?



Policy Considerations

Let policy be your shield!

Protect against competing agendas

School Board, Superintendent, Staff, Community

Develop comprehensive policies

Reserve, Liquidity, Investment Management, Debt Management

Use professional resources

Government Finance Officers Association, gfoa.org

Auditor

Financial Advisor

Bond Counsel

DPI

Allow for some collaboration, but ultimately financial management should be guided by the business office

Remember, you are the gatekeeper



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