

Session 3:

Part 3 - Public Investment Planning: Cash Flow

Victoria L. Beatley
Director of Finance/City Treasurer
City of Seal Beach

Kent Morris
Chief Investment Officer
City of San Diego

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Lessons

1. What's the big deal about cash?
2. Finding cash when you need it
3. The consequences of running out of cash
4. Recognizing trouble

Budget

- **A document with numbers that are a virtual representation of:**
 - **Revenues**
 - **Expenses**
 - **Earnings**

Budget

- Represents policies and priorities**
- No cash in budget**

What is Cash Flow?

- Actual inflow and outflow of funds**
- The difference between available cash at the beginning and end of a period of time**

What is Cash Flow?

- Positive cash flow means more money to spend/invest**
- Negative cash flow means less money to spend/invest**

What is Cash Flow?

- Negative cash flow can be mitigated by borrowing**
- No corrective action can lead to insolvency**

What is Cash Insolvency?

- Generally occurs when expenses exceed revenues**
- Negative cash flow over an extended period of time**

What is Cash Insolvency?

- Erosion of fund balance/reserves**
- Erodes the Public trust**
- Bankruptcy**

What is Cash?

- Funds in the bank**
- Funds in investments**

So What's the Big Deal?

- Loss of revenue**
- Erosion of fund balance/reserves**
- Need to identify cash requirements**

Finding Cash When You Need It

- Earnings**
- Borrowing**

What Can You Do in an Uncertain Cash Environment?

- Have a system in place to analyze and monitor cash**
- Report on cash flow status include projections**

What Can You Do in an Uncertain Cash Environment?

- Conserve cash when possible**
- Build fund balance/reserves**

What Can You Do in an Uncertain Cash Environment?

- Create a spending plan to manage available cash**
- Don't run out**

Cash Flow

- **The following items have something in common, what is it?**
 - **Deficit spending**
 - **Low reserves**
 - **Untimely account reconciliation**
 - **Not monitoring the current financial environment**

Cash Flow

- **Deficit Spending:**
 - Spending faster than earning
 - Causes depletion of fund balance/reserves
 - Periodic may be okay

Cash Flow

- **Low Reserves:**
 - **Policy limits**
 - **Bond covenants**
 - **Loss of protection against the unexpected**

Cash Flow

- **Untimely Account Reconciliation:**
 - **Missing cash**
 - **Unexpected withdrawals**
 - **Loss of protection against losses**

Cash Flow

- **Not monitoring the Current Financial Environment:**
 - **Forecasting assumptions**
 - **Trends**

So What Do They Have in Common?

- Poor financial management**
- Can result in running out of cash**

Cash Flow

- **Total assets are irrelevant if you can't write checks to pay your bills**
- **Good cash management systems facilitate accurate projections, timely payment, discounts taken, and good credit ratings**

Cash Flow

- **Uneven receipts/expenditures**
- **Temporary shortfall**
- **No new problems**

Sample Cash Flow Model

- **Layout**
 - **Horizontal – time in days, weeks, months**
 - **Vertical – beginning balance, revenues, expenses, investments, ending balance**

Sample Cash Flow Model

- **Forecasting Methods**
 - **Build from budget**
 - **Historical actual/trends**
 - **Identify one-time occurrences**

City of San Diego Cash Flow Forecasts

- **Daily Investment Worksheet**
 - **Feeds historical spreadsheet**
- **Historical Cash Flow Spreadsheet**
 - **Used for Investment Reports & Interest Earning Forecasts/Revisions**
- **Near Term Cash Forecast**

Daily Investment Worksheet

- Determine Net Cash Available to Invest
 - Components
 - Opening Bank Balance
 - ACH/Wire Deposits
 - Float
 - Investments
 - Disbursements

Daily Investment Worksheet

- **Source of Information:**
 - SAP
 - Sungard
 - Depository Bank's online website
- **Benefits**
 - Avoid Overdrafts
 - Maximize daily Investment
 - Retain data for other purposes

Historical Cash Flow Spreadsheet

- **Fiscal Year Spreadsheet**
- **Components:**
 - **Same Components as Daily Investment Worksheet**
 - **Deposits (Armor & Cash Letters)**
 - **Estimated Repurchase Interest**
 - **Major Wire Payments (In/Out)**

Historical Cash Flow Worksheet

- **Source of Information:**

- SAP
- Sungard
- Depository Bank's online website

- **Benefits**

- Provides a reconciliation for final repurchase agreement amount
- Allow for deposit/disbursement studies
- Track major cash flows
- Basis for our Interest Earnings Forecast & State Code Compliance
- Improves transparency

Near Term Cash Forecast

- **Displays Available Cash 45-60 days out**
- **Components**
 - **Data from historical cash flow spreadsheet**
 - **Major Debits/Credit**
 - **Maturing Investments**

Near Term Cash Forecast Spreadsheet

	A	B	C	D	E	F
1	Date	Description	Debit	Credit	Balance	
2	2/27/2014	Opening Balance			\$80,300,000.00	
3	2/28/2014	CP DBKFIN maturity		\$15,000,000.00	\$95,300,000.00	
4	2/28/2014	Payroll	\$22,500,000.00		\$72,800,000.00	
5	2/28/2014	T buys	\$50,000,000.00		\$22,800,000.00	
6	2/28/2014	SAP debt service	\$620,000.00		\$22,180,000.00	
7	3/3/2014	FIT/SIT	\$4,000,000.00		\$18,180,000.00	
8	3/3/2014	CSCO FRN buy	\$5,000,000.00		\$13,180,000.00	
9	3/4/2014	Property Tax		\$3,700,000.00	\$16,880,000.00	
10	3/5/2014				\$16,880,000.00	
11	3/6/2014				\$16,880,000.00	
12	3/7/2014				\$16,880,000.00	
13	3/8/2014				\$16,880,000.00	
14	3/9/2014				\$16,880,000.00	
31	3/26/2014				\$29,380,000.00	
32	3/27/2014	FHLB maturity		\$25,000,000.00	\$54,380,000.00	
33	3/28/2014	Payroll	\$22,500,000.00		\$31,880,000.00	
34	3/28/2014	SDCERS	\$3,000,000.00		\$28,880,000.00	
35	3/30/2014				\$28,880,000.00	
36	3/31/2014	FIT/SIT	\$4,000,000.00		\$24,880,000.00	
37	4/1/2014	ITW maturity		\$8,600,000.00	\$33,480,000.00	
38	4/2/2014	Property Tax		\$2,500,000.00	\$35,980,000.00	
39	4/3/2014				\$35,980,000.00	
40	4/4/2014				\$35,980,000.00	
41	4/5/2014				\$35,980,000.00	
42	4/6/2014				\$35,980,000.00	
43	4/7/2014				\$35,980,000.00	
44	4/8/2014				\$35,980,000.00	
45	4/9/2014	FFCB maturity		\$25,000,000.00	\$60,980,000.00	
46	4/9/2014	SAP debt service	\$10,500,000.00		\$50,480,000.00	
47	4/10/2014	Sales Tax		\$12,000,000.00	\$62,480,000.00	
48	4/10/2014	Property Tax		\$76,000,000.00	\$138,480,000.00	
49	4/11/2014	Payroll	\$22,500,000.00		\$115,980,000.00	
50	4/11/2014	CWA	\$15,000,000.00		\$100,980,000.00	
51	4/13/2014				\$100,980,000.00	
52	4/14/2014	FIT/SIT	\$4,000,000.00		\$96,980,000.00	
53						

Near Term Cash Flow Worksheet

- **Source of Information:**
 - Historical Cash Flow Spreadsheet
 - Sungard
- **Benefit**
 - Provides forward looking view on cash balances
 - Easy to identify cash deficits
 - Data readily available
 - Customizable timeframe & simple to update
 - Facilitates opportunistic investment opportunities

Victoria L. Beatley - Director of Finance/City Treasurer

City of Seal Beach

vbeatley@sealbeachca.gov

Kent Morris - Chief Investment Officer

City of San Diego

kmorris@sandiego.gov

CONTACT

Questions & Answers

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