Session 7: Understanding Cash Flow and Forecasting, Part 2 - Exercise

PUTTING IT ALL TOGETHER – A CASHFLOW SIMULATION PLAN

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION
CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION

PRUDENT MAN ADVISORS, INC.
JANUARY 18, 2017
WHAT DO WE DO?

• Break into small groups
• You will be provided a case study and an excel cash flow template
• As a group, discuss budget/forecast scenarios
  o Consider assumptions around revenues and expenses
    ▪ Be creative or pragmatic
  o What sort of investment or financing plan should you have?
    ▪ Short vs. long-term investments
• 20-30 minutes to work on your case study
• Share your group’s case study, outcomes and investment or financing plan
CASE STUDY

• Your Debt and Investment Committee has asked you to prepare a cash flow forecast. They have been directed by the governing Board/Council to explore the addition of an aquatic center to one of the neighborhood parks within the next 12-24 months.

• Your entity has a healthy cash reserve balance, with little debt. However, the addition of the aquatic center will certainly increase cost.

• The Committee needs you to provide guidance to them around:
  o Pay in cash the one time cost of $3M to build the aquatic center or finance it?
  o What other expenditures will increase (personnel, equipment, utilities, insurance)?
  o Can we offset ongoing cost with fees?
  o What sort of reserve balance will we still have?

• Be creative!! No wrong answers
WRAP UP

• Match your investment plan to Goals and Objectives
• Liquidity Needs
• Safety of Principal
  o Credit Risk
  o Interest Rate Risk (Price Volatility)
• Yield, Income, and Return Objectives
• Diversification reduces risk over time
• Avoid market timing
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