




Carl Vinson  
Institute of Government  
UNIVERSITY OF GEORGIA

NAVIGATING FISCAL CRISIS

# Short-Term Funding Strategies

10 a.m. | June 16



WEBINAR SERIES

# Presenting today....



**John Hulsey, CGFM, CPFO**  
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# Polling Questions



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NAVIGATING FISCAL CRISIS  
WEBINAR SERIES

# LEARNING OBJECTIVES

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**Discuss** why governments borrow money

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**Recall** the differences between long-term and short-term debt

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**Identify** strategies for short-term financing

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**Discuss** advantages and disadvantages of each

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# Why Borrow Money?

## Debt Financing

Presented by: John G. Hulsey, CGFM, CPFO



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# WHY BORROW MONEY?



Funds needed to:

Cover  
Operating Shortfall

Acquire/Construct  
Capital Assets



# Types of Debt

## Long-Term vs. Short-Term

Presented by: John G. Hulsey, CGFM, CPFO



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# LONG-TERM VS. SHORT-TERM DEBT

## Short-Term Debt Operating Purposes

- Will be repaid within one year
- Issued to cover operating short-falls, in anticipation of receipt of specific type of revenue
- Generally referred to as anticipation notes





# LONG-TERM VS. SHORT-TERM DEBT

## Long-Term Debt Capital Purposes

- Will not be repaid within one year
- Generally limited to financing capital projects
- Limited by State law -
  - How much debt can be issued?
  - How long can debt be issued?



# Short-Term Funding Strategies

Presented by: John G. Hulse, CGFM, CPFO



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# SHORT-TERM FUNDING STRATEGIES

Tax Anticipation Notes (TANs)

Interfund Borrowing

Interfund Transfers

Lease Purchase for PayGo Financing





# TAX ANTICIPATION NOTES (TANs)

Short-term obligations

Issuer repays a specified principal amount on a certain date, together with interest at a stated rate

Payable from a defined source of anticipated revenues

Limited to 75% of total gross income from taxes collected in prior year

Georgia Constitution. Art. 9, § 5, ¶ 5





# **TAX ANTICIPATION NOTES (TANs)**

“Temporary loan in each year”

Must be repaid by December 31 of the calendar year in which loan was made

Issued only if no other temporary loan is outstanding from prior year

Aggregate of tax anticipation notes and other contracts, notes, warrants or obligations for current expenses may not exceed the total anticipated revenues for the calendar year

Georgia Constitution. Art. 9, § 5, ¶ 5



# TAX ANTICIPATION NOTES (TANs)

## Advantages

- Provides necessary liquidity
- Marketed quickly and easily
- Low costs

## Disadvantages

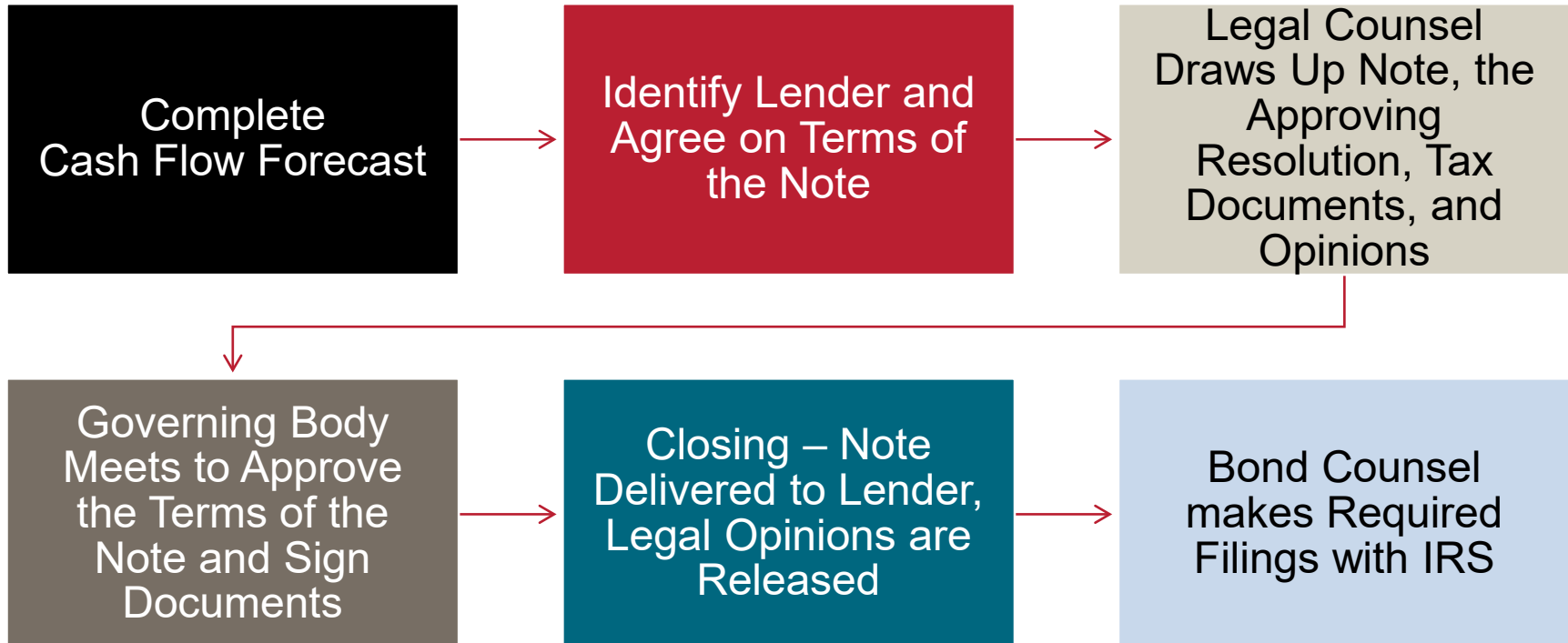
- Overdependence by governments
- Interest expenditures
- Difficult to repay (structural imbalance)

## Avoiding overdependence

- Proper budgeting of revenues each year
- Maintain recommended general fund unrestricted fund balance
  - GFOA recommends minimum of 2 months of General Fund operating revenues or expenditures



# STEPS IN THE PROCESS



# CASH FLOW FORECAST

A schedule of receipts and disbursements over a given time period







# CASH FLOW ANALYSIS

County Summary Statement of Monthly Cash Receipts and Disbursements - FY 2018 and CY 2018 Budget

(\$000 omitted)	OCT <u>2018(A)</u>	NOV <u>2018(A)</u>	DEC <u>2018(A)</u>	JAN <u>2019(A)</u>	FEB <u>2019(A)</u>	MAR <u>2019(A)</u>	APR <u>2019</u>	MAY <u>2019</u>	JUNE <u>2019</u>	JULY <u>2018</u>	AUG <u>2019</u>	SEPT <u>2019</u>	Total For Fiscal Year
<b>BEGINNING BALANCE</b>	\$ 46,759	\$282,334	\$220,997	\$194,257	\$145,528	\$129,468	\$110,916	\$88,475	\$60,590	\$86,749	\$30,643	\$ 2,487	\$ 46,759
<b>RECEIPTS:</b>													
Property Taxes	231,631	34,224	1,725	4,628	7,005	8,575	3,197	2,233	2,085	1,789	12,326	63,502	372,920
Penalties & Interest	151	674	746	385	284	255	244	175	148	174	183	178	3,597
Other Taxes	34,172	3,477	1,648	1,558	4,867	551	1,501	3,167	1,567	2,425	2,481	1,526	58,940
Licenses & Permits	886	2,612	6,330	4,199	4,672	4,939	1,275	1,125	918	868	1,041	799	29,664
Intergov't Revenue	201	185	297	272	180	247	297	297	297	297	297	297	3,164
Chgs For Services	3,127	7,446	1,800	1,756	2,420	2,628	2,131	2,199	2,067	2,214	2,088	2,270	32,146
Administrative	980	1,028	981	980	980	1,035	900	900	900	900	900	900	11,384
Fines & Forfeitures	625	757	608	752	881	713	771	771	771	771	771	771	8,962
Other/Miscellaneous	4,275	22,181	526	2,373	(2,600)	2,096	5,474	3,890	296	3,265	1,852	691	44,319
Tans Proceeds	-	-	-	-	-	-	-	-	64,000	-	-	-	64,000
Net Change Fund Equiv	-	-	3,600	3,122	2,345	436	-	-	-	-	-	-	9,503
	276,048	72,584	18,261	20,025	21,034	21,475	15,790	14,757	73,049	12,703	21,939	70,934	638,599
<b>DISBURSEMENTS:</b>													
Personal Services	28,162	28,618	27,995	41,896	28,111	27,969	28,156	28,156	28,156	42,234	30,905	28,156	368,514
Services & Supplies	10,687	9,478	7,963	23,592	5,761	10,622	7,160	8,860	7,336	18,088	9,345	6,848	125,740
Capital Outlay	839	899	2,191	1,859	2,332	1,633	828	2,089	2,743	6,093	4,856	6,640	33,002
To/(From) Other Funds	24	3,173	6,852	1,407	890	(197)	2,087	3,537	3,655	2,394	2,489	3,537	29,848
Tans Repayment:													
Principal	-	90,000	-	-	-	-	-	-	-	-	-	-	90,000
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change Fund Equiv	761	1,753	-	-	-	-	-	-	5,000	-	2,500	-	10,014
	40,473	133,921	45,001	68,754	37,094	40,027	38,231	42,642	46,890	68,809	50,095	45,181	657,118
<b>ENDING BALANCE</b>	<u>\$282,334</u>	<u>\$220,997</u>	<u>\$194,257</u>	<u>\$145,528</u>	<u>\$129,468</u>	<u>\$110,916</u>	<u>\$ 88,475</u>	<u>\$60,590</u>	<u>\$86,749</u>	<u>\$30,643</u>	<u>\$ 2,487</u>	<u>\$28,240</u>	<u>\$ 28,240</u>

\$30,643 - \$64,000 = \$(33,357)



# FINANCIAL REPORTING

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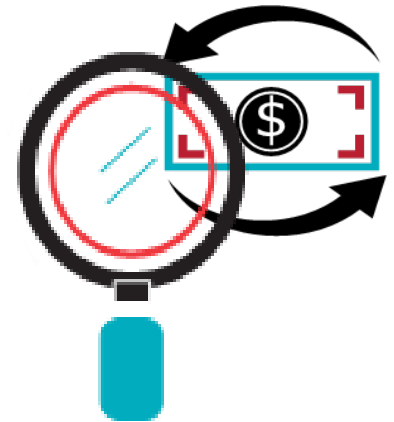
Tax Anticipation Notes are a **fund liability**

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Tax Anticipation Notes are **NOT** other financing sources

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Tax Anticipation Notes are **always** reported on the Governmental Funds Balance Sheet as a current liability



# FINANCIAL REPORTING



## Note 8. Short-Term Tax Anticipation Notes

In June 2019, the County issued \$64 million in tax anticipation notes to finance general operations of the County through November 2019. The notes bear interest at 3 percent and are due on November 26, 2019. These notes were paid on November 26, 2019 from 2019 property tax revenues collected between September and November. Total payments of principal and interest on November 26, 2019 amounted to \$64,794,667.

## Note 8. Short-Term Tax Anticipation Notes (Continued)

The borrowings were allocated to the General Fund and Fire District Special Revenue Fund as follows:

	Principal	Premium	Total
General Fund	\$ 42,000,000	\$ 293,580	\$ 42,293,580
Fire District Special Revenue Fund	22,000,000	153,780	22,153,780
	<b>\$ 64,000,000</b>	<b>\$ 447,360</b>	<b>\$ 64,447,360</b>

Short-term debt activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Issued	Reductions	Ending Balance
Tax Anticipation Notes	\$ 90,000,000	<b>\$ 64,000,000</b>	\$ (90,000,000)	<b>\$ 64,000,000</b>
Premium on Notes	93,194	447,360	(373,381)	167,173
Total Tax Anticipation Notes Payable	<b>\$ 90,093,194</b>	<b>\$ 64,447,360</b>	<b>\$ (90,373,381)</b>	<b>\$ 64,167,173</b>



# Other Funding Strategies

Presented by: John G. Hulse, CGFM, CPFO



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# INTERFUND BORROWING

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Temporary borrowing between funds of the same reporting entity

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Establish criteria for making loans between funds of the same reporting entity

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Establish interest rates and terms

Does your government have a debt policy that addresses interfund borrowing?



Will interest be charged on the interfund loan?



# LEASE PURCHASE FINANCING



## Identify Budgetary Items for PayGo

- Consider structuring the acquisition of these items as a lease purchase

## Advantages

- Does not require voter approval
- Easy, effective method of obtaining funding
- Non-appropriation clause

## Disadvantage

- Potentially higher interest rates as the result of the “fiscal funding” clause





# CONCLUSION

Evaluate all funding options carefully

Consult with your attorney prior to proceeding with any borrowings

Review your Debt Management Policy

- Ensure you have provisions for TANs, interfund borrowing, leases, etc.

Review your CIP Policy

- Evaluate your funding mechanisms and align debt maturity with capital asset useful life

Establish a practice of creating and using a cash flow forecast to identify cash flow deficits



# Questions



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# Upcoming Free Webinar

- **Navigating Fiscal Crisis: Communicating the New Normal**

10 a.m. June 23

During times of fiscal stress, effective communication with the public and your employees is critical. At the end of this session, you should be able to implement techniques for effective communication to the public and employees.

Presenter: Paula Sanford



# Institute of Government Resources

The screenshot shows the website header with the logo and navigation menu. The main content area is titled "COVID-19 Resources" and includes three sections: "Navigating Fiscal Crisis" webinars, a "County Economic Impact Report" worksheet, and a "Budget Balancing Template".

**COVID-19 Resources**

Join us for *Navigating Fiscal Crisis*, a series of free webinars to help communities respond to the fiscal crisis caused by the COVID-19 pandemic. Offered by the Institute's experts, webinars will cover making ends meet against revenue shortfalls, tools for budgeting and analyzing the economy, planning for cashflow, short-term funding strategies and communicating difficult financial decisions.

**County Economic Impact Report**  
The Institute of Government is offering Georgia's local governments the opportunity to request a local economic impact model report based on local assumptions of job loss by industry sector for a given county. This a time-limited complementary service to help Georgia's local governments better understand the economic impact of COVID-19. We ask you to identify a person who can serve as the point of contact for the governments in the county who can facilitate completing the local assumptions worksheet. Download the worksheet to get started.

**Budget Balancing Template**  
The Institute's Budget Balancing Template is a flexible and straightforward tool that allows a user to easily input different cost savings measures and compare those to three revenue scenarios. The downloadable template is meant to assist local government officials in their efforts to create a balanced budget that meets their community's needs during uncertain times.

To download templates and access webinar recordings go to <https://cviog.uga.edu/covid-19-resources.html>



# If you have any questions please contact us....



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# Thank you for attending

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