Short-Term Funding Strategies
10 a.m. | June 16
Presenting today....

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Webinar Coordinator
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Polling Questions
LEARNING OBJECTIVES

Discuss why governments borrow money

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

Identify strategies for short-term financing

Discuss advantages and disadvantages of each
Why Borrow Money?

Debt Financing

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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

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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. Hulsey, CGFM, CPFO
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

1. Complete Cash Flow Forecast
2. Identify Lender and Agree on Terms of the Note
3. Legal Counsel Draws Up Note, the Approving Resolution, Tax Documents, and Opinions
4. Governing Body Meets to Approve the Terms of the Note and Sign Documents
5. Closing – Note Delivered to Lender, Legal Opinions are Released
6. Bond Counsel makes Required Filings with IRS
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)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BEGINNING BALANCE</strong></td>
<td>$46,759</td>
<td>$282,334</td>
<td>$220,997</td>
<td>$194,257</td>
<td>$145,528</td>
<td>$129,468</td>
<td>$110,916</td>
<td>$88,475</td>
<td>$60,590</td>
<td>$86,749</td>
<td>$30,643</td>
<td>$2,487</td>
<td>$46,759</td>
</tr>
</tbody>
</table>

## RECEIPTS:

- **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, 764, 746, 385, 284, 255, 244, 175, 148, 174, 183, 178, 3,597
- **Other Taxes**: 34,173, 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, 886, 1,041, 799, 29,664
- **Intergov't Revenue**: 201, 185, 297, 272, 180, 247, 297, 297, 297, 297, 1,024, 2,270, 32,146
- **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, 900, 900, 11,384
- **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

Net Change Fund Equiv:

- 276,048
- 72,584
- 18,261
- 20,025
- 20,034
- 21,034
- 21,034
- 21,175
- 15,790
- 14,757
- 14,757
- 14,757
- 14,757
- 14,757
- 14,757
- 14,757
- 63,599

## DISBURSEMENTS:

- **Personal Services**: 28,162
- **Services & Supplies**: 10,687
- **Capital Outlay**: 839
- **To (From) Other Funds**: 24
- **Tans Repayment:**
  - **Principal**: - 90,000
  - **Interest**: -
  - **Net Change Fund Equiv**: 761

Total Disbursements:

- 40,473
- 133,921
- 45,001
- 68,754
- 37,094
- 40,027
- 38,231
- 42,642
- 46,890
- 68,809
- 50,955
- 45,181
- 657,118

**ENDING BALANCE**

- $282,334
- $220,997
- $194,257
- $145,528
- $129,468
- $110,916
- $88,475
- $60,590
- $86,749
- $30,643
- $2,487
- $28,240

$30,643 - $64,000 = $(33,357)
Tax Anticipation Notes are a **fund liability**

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

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

<table>
<thead>
<tr>
<th>Fund</th>
<th>Principal</th>
<th>Premium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$ 42,000,000</td>
<td>$ 293,580</td>
<td>$ 42,293,580</td>
</tr>
<tr>
<td>Fire District Special Revenue Fund</td>
<td>22,000,000</td>
<td>153,780</td>
<td>22,153,780</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 64,000,000</strong></td>
<td><strong>$ 447,360</strong></td>
<td><strong>$ 64,447,360</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Issued</th>
<th>Reductions</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Anticipation Notes</td>
<td>$ 90,000,000</td>
<td>$ 64,000,000</td>
<td>$ (90,000,000)</td>
<td>$ 64,000,000</td>
</tr>
<tr>
<td>Premium on Notes</td>
<td>93,194</td>
<td>447,360</td>
<td>(373,381)</td>
<td>167,173</td>
</tr>
<tr>
<td>Total Tax Anticipation Notes Payable</td>
<td>$ 90,093,194</td>
<td>$ 64,447,360</td>
<td>$ (90,373,381)</td>
<td>$ 64,167,173</td>
</tr>
</tbody>
</table>
Other Funding Strategies

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INTERFUND BORROWING

Temporary borrowing between funds of the same reporting entity

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

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
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

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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