



WARNING SIGNS: HOW TO RECOGNIZE THEM AND DO SOMETHING ABOUT IT



California Finance ...And All That Jazz

CSMFO Annual Conference
February 20 – 22, 2013
Oakland Marriott City Center

Presented by:
Tim Schaefer

 **MAGIS ADVISORS**
public finance consulting



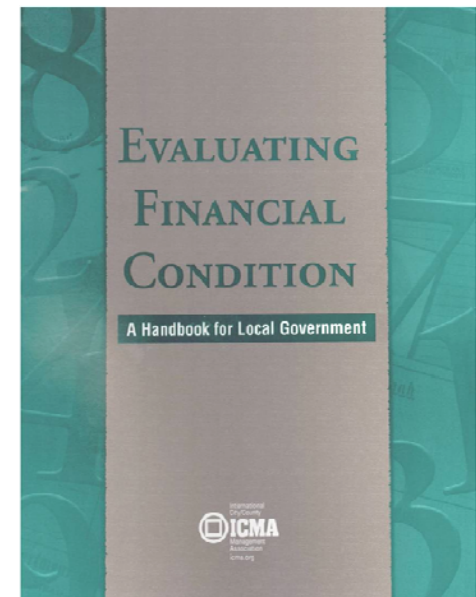
California Finance
...And All That Jazz
CISMO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

THE MODEL & BASIS FOR THIS SESSION

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



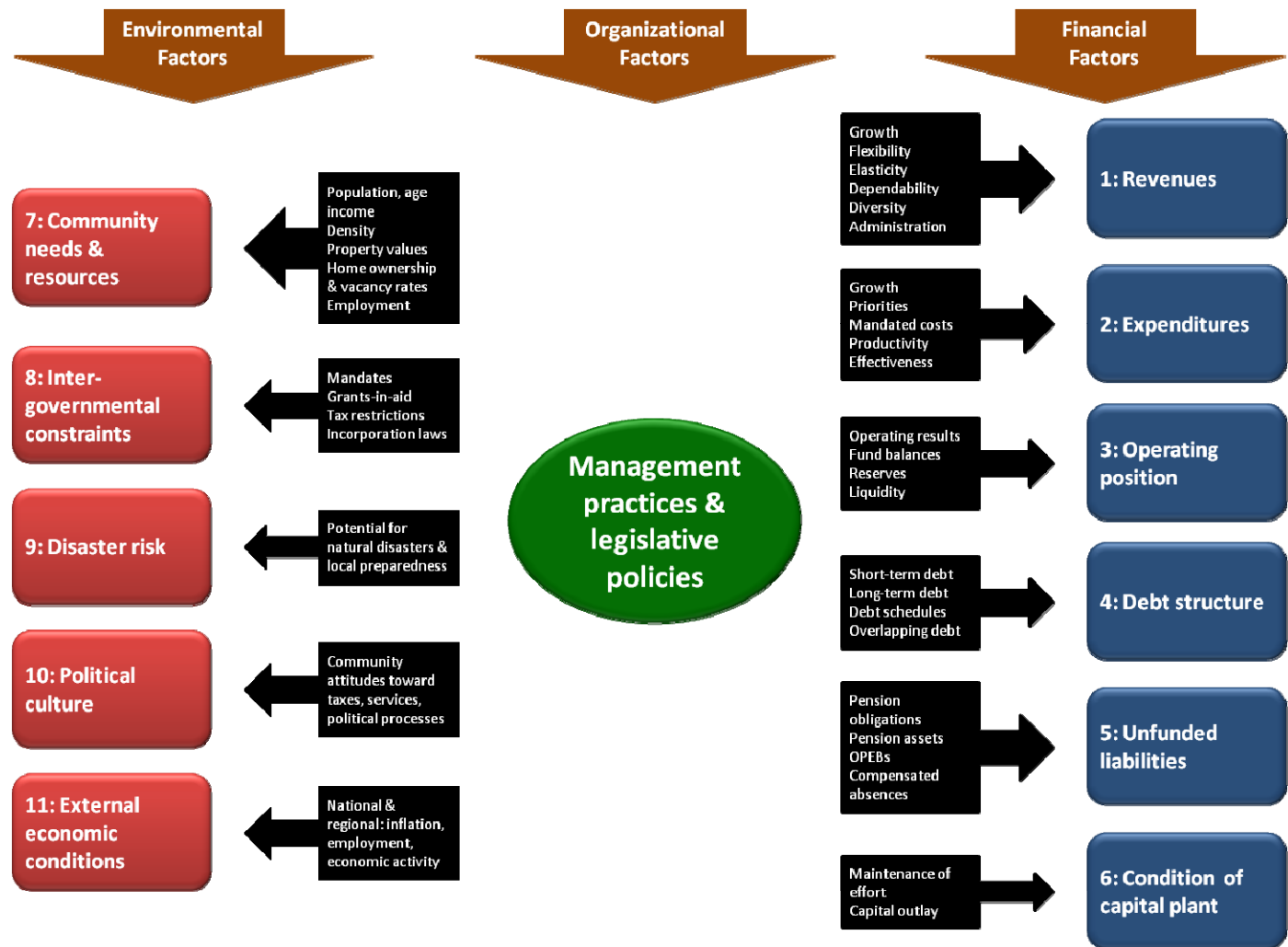
- A “financial trends monitoring system” developed by a working group of the International City/County Management Association
- Presented in:
“Evaluating Financial Condition: A Handbook for Local Government”





OVERVIEW OF THE “FTMS” PROCESS

WARNING SIGNS: HOW TO RECOGNIZE THEM AND DO SOMETHING ABOUT IT





California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



THERE ARE ELEVEN “FACTORS”

1. Revenues
2. Expenditures
3. Operating position
4. Debt structure
5. Unfunded liabilities
6. Condition of capital plant
7. Community needs & resources
8. Intergovernmental restraints
9. Natural disasters & emergencies
10. Political culture
11. External economic conditions



"Let's put that nasty word 'plummet' out of our minds."



California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

THEN, THERE ARE THIRTY-SIX “INDICATORS”

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



(1) Net operating revenues
(constant dollars)
 \div population

(2) Restricted operating revenues
 \div net operating revenues

(3) Intergovernmental revenues
 \div gross operating revenues

(4) Elastic operating revenues
 \div net operating revenues

(5) “one-time” operating
revenues
 \div net operating revenues

(6) Property tax revenues
(in constant dollars)

(7) Uncollected property taxes
 \div net property tax levy

(8) Fee revenues & user charges
 \div expenditures for related
services

(9) Revenue shortfalls
 \div net operating revenues

(10) Net operating expenditures
(constant dollars)
 \div population

(11) Number of municipal
employees
 \div population

(12) Fixed costs
 \div net operating expenditures



California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

THEN, THERE ARE THIRTY-SIX “INDICATORS”

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



(13) Fringe benefit expenditures
÷ salaries and wages

(14) General Fund operating
deficits
÷ net operating revenues

(15) Enterprise profits (or losses)
(constant dollars)

(16) Unreserved fund balances
÷ net operating revenues

(17) Liquidity = cash + short-term
investments
÷ current liabilities

(18) Current liabilities ÷ net
operating revenues

(19) Net direct long-term debt
÷ assessed valuation

(20) Net direct debt service
÷ net operating revenues

(21) Long-term overlapping debt
÷ assessed valuation

(22) Unfunded pension liability
÷ assessed valuation

(23) Pension assets
÷ annual pension benefits paid

(24) Accumulated employee leave
÷ number of municipal employees



California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

THEN, THERE ARE THIRTY-SIX “INDICATORS”

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



(25) Maintenance of fixed assets
 \div Quantity of capital assets

(26) Capital outlay from
operating funds
 \div net operating expenditures

(27) Depreciation expense
 \div cost of depreciable assets

(28) Population trends

(29) Median age of population

(30) Personal income
(constant dollars)
 \div population

(31) Households in poverty
 \div # of households

(32) Chg in property values
 \div Property values in prior year
(both in constant dollars)

(33) Market value of new
residential development
 \div Market value of all
development

(34) Vacancy rates: office,
commercial, industrial

(35) Unemployment rate
(with comparison to prior years
and to the region or state)

(36) Business activity: retail sales,
gross business receipts, etc.
(consider TOT vs. sales tax)



California Finance
...And All That Jazz
CFFMO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

Start “Small”

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



Income statement:

Indicator #1: net operating revenues
(constant dollars) ÷ population

Indicator #5: non-recurring revenues as
% of operating revenues

Indicator #10: net operating
expenditures (constant dollars) ÷
population

Indicator #20: debt service as % of net
operating revenues (don't forget
leases!)

Balance sheet:

Indicator #17: Current ratio: total current
assets divided by notes, operating
loans and other current liabilities

Also, you may wish to consider . . .

Quick ratio: total cash and investments
divided by notes, operating loans
and other current liabilities (this is a
sub-set of Indicator #17)





California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

REVIEW YOUR VULNERABILITIES

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



- What is driving each item?
 - Economic (regional or national)
 - Demographic (population trends)
 - Managerial or policy-driven (change in focus)
 - Service levels (increasing, decreasing etc.)
 - Concentration of payers



- Is there a co-relationship between certain classes of revenues?
 - Example: transient occupancy tax as a predictor of future sales tax changes



California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

PAY ATTENTION TO “OTHER” LIABILITIES

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT

- Borrowing from your investment pool can mask liquidity issues.
 - Don't forget that when stress is applied, it will usually turn out worse than you thought!
 - Develop an accurate, reliable cash flow forecast, then use it!





California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

IF YOU DO NOTHING ELSE, CONSIDER THIS . . .

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT

- You fulfill mission critical programs with “budget,” but you pay the bills with cash!
- Every small business has heard the adage: “Don’t run out of cash; if you do, it’s game over!”



- Discussion of study by Hackett Group.





California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

CASH IS KING!

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



- You do have a cash flow forecast, don't you?
- What are your year-end, peak/valley, or other cash trends over the past three to five years?
- What is the receivables trend over the same period?
- What is the payables trend over the same period?
- What about the fund balance trends?





California Finance
...And All That Jazz
CFFMO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

WHAT IS HIDING IN "PLAIN SIGHT"?

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT

	July	August	September	October	November	December	January
GENERAL FUND BEGINNING CASH BALANCE	\$ 2,066,372	\$ 1,005,776	\$ 318,640	\$ -	\$ -	\$ -	\$ -
RECEIPTS:							
Property Taxes	-	113,890	107,672	91,634	163,687	1,966,397	1,70
Sales Taxes	302,106	305,593	387,862	234,571	311,137	371,824	2
Charges for Services	46,512	255,222	172,818	179,892	193,086	177,750	1
Transient Occupancy Tax	87,642	186,930	152,622	120,690	120,348	113,022	10
Franchise Fees	-	320,526	14,958	72	320,850	14,796	
Rents and Concessions	64,332	86,526	82,242	48,474	53,190	45,648	4
Licenses and Permits	44,604	40,752	37,368	34,452	33,138	36,018	4
Fines, Forfeitures and Penalties	46,854	46,854	46,854	46,854	46,854	46,854	4
Other Unclassified Revenue	5,773	5,773	5,773	5,773	5,773	5,773	5
Intergovernmental (including Triple Flip)	13,014	10,188	3,276	6,660	1,440	6,264	4
TOTAL RECEIPTS	610,839	1,372,254	1,011,445	769,072	1,249,522	2,784,346	2,880,1
DISBURSEMENTS:							
Salaries and Wages	778,655	1,168,002	778,655	778,655	778,655	778,655	778
Deposits to employee retirement funds	198,434	282,656	198,434	188,434	188,434	188,434	188
Other Fringe Benefits (Compensated Absences, etc.)	242,649	99,178	242,649	242,649	242,649	242,649	24
Supplies and Services	413,464	418,988	603,247	273,121	281,200	417,641	11
Utilities	44,213	86,546	25,007	76,685	280,289	70,943	
Unclassified	4,019	4,019	4,019	4,019	4,019	4,019	
TOTAL DISBURSEMENTS	\$ 1,671,435	\$ 2,059,390	\$ 1,842,012	\$ 1,563,564	\$ 1,775,246	\$ 1,702,342	\$
Net Cash Flow for Period	(1,060,596)	(687,136)	(830,566)	(794,493)	(525,724)	1,082,004	1
GENERAL FUND ENDING CASH BALANCE (before loans or repayments)	1,005,776	318,640	(511,926)	(794,493)	(525,724)	1,082,004	1
TEMPORARY LOANS (REPAYMENTS):	-	-	511,926	794,493	525,724	(1,082,004)	(2
GENERAL FUND ENDING CASH BALANCE	1,005,776	318,640	-	-	-	(0)	7
AVAILABLE/BORROWABLE RESOURCES:	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 1,488,074	\$ 693,581	\$ 167,858	\$ 1,249
CUMULATIVE LOAN BALANCES:	-	-	511,926	1,306,419	1,832,142	750,138	2,000
UNUSED BORROWABLE RESOURCES:	2,000,000	2,000,000	1,488,074	693,581	167,858	1,249,862	2,000
TOTAL OF CASH & UNUSED BORROWABLES	\$ 3,005,776	\$ 2,318,640	\$ 1,488,074	\$ 693,581	\$ 167,858	\$ 1,249,861	\$ 2,722
CASH & BORROWABLES AS % OF DISBURSEMENTS	14%	11%	7%	3%	1%	6%	
CASH & BORROWABLES DOH (of Disbursements)	52	40	26	12	3	22	

Consider this case: The City of Sand Pointe has a General Fund budget of about \$21 million; It's opening cash is estimated to be just over \$2.0 million; it has additional funds in its investment pool of another \$2.0 million (attributable to proprietary funds). The City has established guidance requiring maintenance of liquidity equivalent to 20% of the General Fund's disbursements. Does this look okay?

Maybe not. In fact, in this illustration, even though the City has policies that look reasonable, at the end of November it has less than three days cash on hand, and is within \$167,000 of running out of cash. It's available cash and borrowable resources at the end of November are just 1% of its annual disbursements! (full sheet is presented on page 19.)

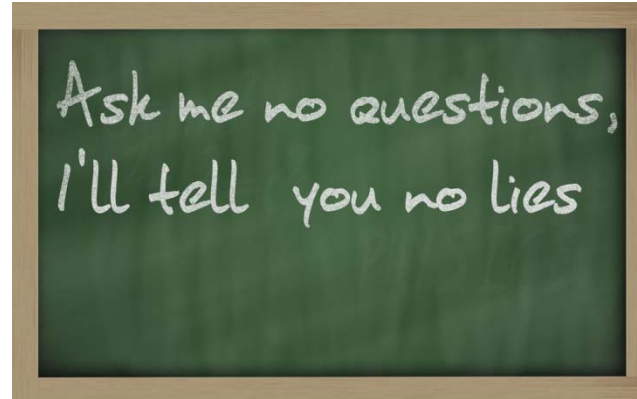




California Finance
...And All That Jazz
CFFMO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

TRENDS DON'T LIE

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



- What do the trends tell you?
- Have you performed “stress tests?”
 - What do they show?
- If trends are negative, what can you do about it?



California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

WHAT THE TOP PERFORMERS DO . . .

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



1. Recognize that risk management is about more than casualty losses and workers compensation claims.
2. Know their suppliers, sources of tax and fee revenue, and customers very well, including their payment and collection habits.
3. Integrate their thinking and systems to gain better knowledge of the effect of financial decisions on their cash position.
4. Set targets and periodically measure the accuracy of their forecasting.
5. Strive for a high degree of organizational alignment and collaboration about the essential differences between cash and budget.



California Finance
...And All That Jazz
CFFMO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

WHAT TO DO IF TROUBLE COMES CALLING . . .

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



- Review payment performance of debtors more frequently.
- Be more selective in the manner in which credit is extended.
- Seek deposits up front for services extended on credit.
- Bill for services or goods on time, every time.
- Step up the frequency of your receivable review.
- Seek better terms from your suppliers.
- Take discounts, if they are available (but watch the math!)
- Reduce inventory items (spare parts, etc.).
- Consolidate bank balances or explore “zero balance accounts” with your bank to concentrate funds.
- Dispose of surplus property more quickly.
- Keep your cash flow forecast current!



California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

OTHER USEFUL RESOURCES

- GFOA's Fiscal First Aid Quick Reference
- GFOA Best Practices
- Your peers

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT





California Finance
...And All That Jazz
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

QUESTIONS & WRAP-UP

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT





California Finance
...And All That Jazz

CSMFO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

THE SPEAKER

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



TIM SCHAEFER

MAGIS ADVISORS

1301 Dove Street, # 380
Newport Beach, CA 92660

(949) 428-8363, xt 222

tim@magisadvisors.com

www.magisadvisors.com

Tim Schaefer is the founder and principal owner of Magis Advisors, an Orange County, California-based consulting firm offering general public finance advice and transaction services for the planning, sale, evaluation and administration of municipal bonds and debt. He has practiced in the financial advisory business in California for more than twenty years and has more than forty years of experience in the municipal securities industry.

Over the past twenty years, he has been responsible for overseeing in excess of \$30 billion in financing. Prior to entering the financial advisory field in 1989, Schaefer managed the national municipal bond trading desk at Chemical Bank in New York City. He also managed the Public Finance Division of Bank of America in San Francisco.

He served more than twenty years on the Technical Assistance Committee to the California Debt and Investment Advisory Commission (including three terms as its chairman) and three years as a private sector advisor to the Standing Committee on Governmental Debt of the Government Finance Officers Association. Tim is a regular instructor at CSMFO's Weekend Training each November.

He is a co-author of the California Public Funds Investment Primer, published by the California Debt and Investment Advisory Commission in 2006, and has authored a number of articles on the field of municipal finance. Magis is a state-registered investment advisor and an SEC registered municipal advisor.



00124013.pptx



**California Finance
...And All That Jazz**
CFFPO Annual Conference
February 20 - 22, 2013
Oakland Marriott City Center

Sand Pointe's Cash Flow

WARNING SIGNS: HOW TO RECOGNIZE
THEM AND DO SOMETHING ABOUT IT



	July	August	September	October	November	December	January	February	March	April	May	June	Total
GENERAL FUND BEGINNING CASH BALANCE	\$ 2,066,372	\$ 1,005,776	\$ 318,640	\$ -	\$ -	\$ -	\$ (0)	\$ 722,363	\$ 134,131	\$ -	\$ 0	\$ 1,386,335	
RECEIPTS:													
Property Taxes	-	113,890	107,672	91,634	163,687	1,966,397	1,759,844	62,014	154,737	1,520,105	1,601,464	123,829	7,665,273
Sales Taxes	302,108	305,593	387,862	234,571	311,157	371,824	248,708	331,610	320,780	218,552	320,562	255,361	3,608,689
Charges for Services	46,512	255,222	172,818	179,892	193,086	177,750	149,652	246,744	263,736	297,846	216,108	1,057,824	3,257,190
Transient Occupancy Tax	87,642	186,930	152,622	120,690	120,348	113,022	100,512	100,818	120,078	116,640	131,454	113,040	1,463,796
Franchise Fees	-	320,526	14,958	72	320,850	14,796	-	236,178	59,778	1,962	264,852	56,232	1,290,204
Rents and Concessions	64,332	86,526	82,242	48,474	53,190	45,648	41,958	43,290	41,274	52,236	65,736	116,982	741,888
Licenses and Permits	44,604	40,752	37,368	34,452	33,138	36,018	41,868	69,084	100,170	48,780	44,838	43,146	574,218
Fines, Forfeitures and Penalties	46,854	46,854	46,854	46,854	46,854	46,854	46,854	46,854	46,854	46,854	46,854	46,854	562,248
Other Unclassified Revenue	5,773	5,773	5,773	5,773	5,773	5,773	5,773	5,773	5,773	5,773	5,773	5,773	69,273
Intergovernmental (including Triple Flip)	13,014	10,188	3,276	6,660	1,440	6,264	484,992	-	2,592	3,546	488,682	3,672	1,024,326
TOTAL RECEIPTS	610,839	1,372,254	1,011,445	769,072	1,249,522	2,784,346	2,880,160	1,142,365	1,115,772	2,312,295	3,186,322	1,822,713	20,257,104
DISBURSEMENTS:													
Salaries and Wages	778,655	1,168,002	778,655	778,655	778,655	778,655	778,655	778,655	1,168,002	778,655	778,655	778,655	10,122,552
Deposits to employee retirement funds	188,434	282,656	188,434	188,434	188,434	188,434	188,434	188,434	282,656	188,434	188,434	188,434	2,449,658
Other Fringe Benefits (Compensated Absences, etc.)	242,649	99,178	242,649	242,649	242,649	242,649	242,649	242,649	99,178	242,649	242,649	242,649	2,624,846
Supplies and Services	413,464	418,988	603,247	273,121	281,200	417,641	131,789	477,635	322,720	473,972	447,203	594,832	4,855,811
Utilities	44,213	86,546	25,007	76,685	280,289	70,943	62,113	39,204	50,906	49,678	36,333	24,611	846,529
Unclassified	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	48,233
TOTAL DISBURSEMENTS	\$ 1,671,435	\$ 2,059,390	\$ 1,842,012	\$ 1,563,564	\$ 1,775,246	\$ 1,702,342	\$ 1,407,659	\$ 1,730,597	\$ 1,927,482	\$ 1,737,408	\$ 1,697,293	\$ 1,833,201	\$ 20,947,629
Net Cash Flow for Period	(1,060,596)	(687,136)	(830,566)	(794,493)	(525,724)	1,082,004	1,472,501	(588,232)	(811,711)	574,886	1,489,029	(10,488)	(690,525)
GENERAL FUND ENDING CASH BALANCE (before loans or repayments)	1,005,776	318,640	(511,926)	(794,493)	(525,724)	1,082,004	1,472,501	134,131	(677,580)	574,886	1,489,029	1,375,847	(690,525)
TEMPORARY LOANS (REPAYMENTS):	-	-	511,926	794,493	525,724	(1,082,004)	(750,138)	-	677,580	(574,886)	(102,694)	-	-
GENERAL FUND ENDING CASH BALANCE	1,005,776	318,640	-	-	-	(0)	722,363	134,131	-	0	1,386,335	1,375,847	-
AVAILABLE/BORROWABLE RESOURCES:	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 1,488,074	\$ 693,581	\$ 167,858	\$ 1,249,862	\$ 2,000,000	\$ 2,000,000	\$ 1,322,420	\$ 1,897,306	\$ 2,000,000	\$ 2,000,000
CUMULATIVE LOAN BALANCES:	-	-	511,926	1,306,419	1,832,142	750,138	0	0	677,580	102,694	0	0	0
UNUSED BORROWABLE RESOURCES:	2,000,000	2,000,000	1,488,074	693,581	167,858	1,249,862	2,000,000	2,000,000	1,322,420	1,897,306	2,000,000	2,000,000	2,000,000
TOTAL OF CASH & UNUSED BORROWABLES	\$ 3,005,776	\$ 2,318,640	\$ 1,488,074	\$ 693,581	\$ 167,858	\$ 1,249,861	\$ 2,722,363	\$ 2,134,130	\$ 1,322,420	\$ 1,897,306	\$ 3,386,335	\$ 3,375,847	\$ 3,375,847
CASH & BORROWABLES AS % OF DISBURSEMENTS	14%	11%	7%	3%	1%	6%	13%	10%	6%	9%	16%	16%	16%
CASH & BORROWABLES DOH (of Disbursements)	52	40	26	12	3	22	47	37	23	33	59	59	59