

# Best Practices in Cash and Debt Management

**Steve Osborne**

*Division of Local Government Finance*

March 7, 2025

**TENNESSEE COMPTROLLER OF THE TREASURY**





**JASON E. MUMPOWER, COMPTROLLER OF THE TREASURY**



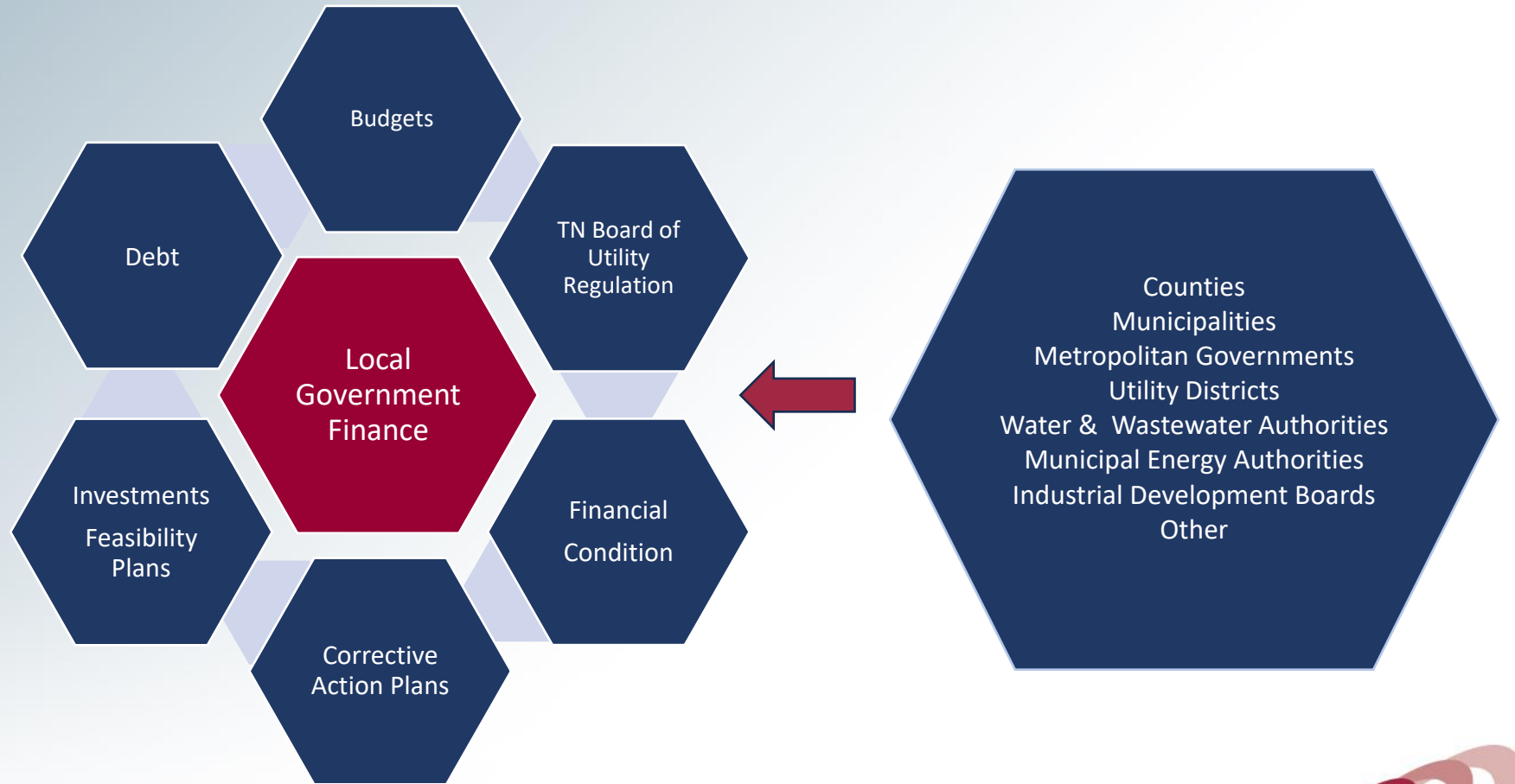
# LGF Leadership



**SHEILA REED, DIRECTOR, DIVISION OF LOCAL GOVERNMENT FINANCE**



# Areas of Oversight and Support to Tennessee's Local Governments



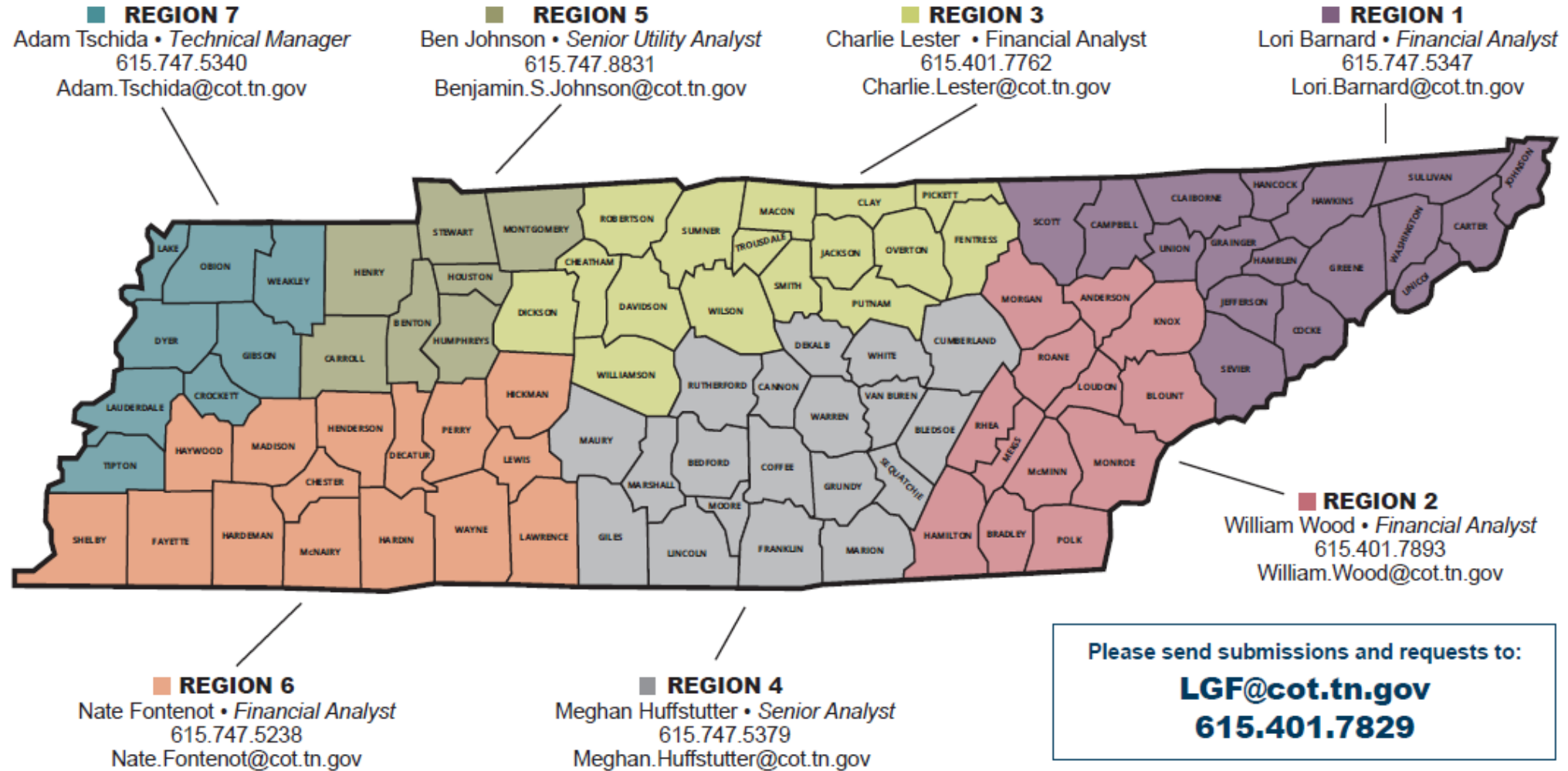




# Financial Health



# Local Government Finance Contact Information



Effective July 2024

Thank  
You!



# Agenda

- Best Practices in Cash Management
- Best Practices in Debt Management

TENNESSEE COMPTROLLER OF THE TREASURY







**TENNESSEE COMPTROLLER OF THE TREASURY**



# Goal

Make government work better by understanding the elements of and implementation of best practices in cash and debt management for Tennessee local governments and how these principles can improve financial health.

# Learning Objectives

- Understand how to implement cash management practices to ensure sound financial health.
- Understand how to implement debt management practices to ensure debt is affordable, in compliance with your debt management policy, and compliant with all regulations.

# Best Practices in Cash Management

TENNESSEE COMPTROLLER OF THE TREASURY







## SEVEN KEYS TO A FISCALLY WELL-MANAGED GOVERNMENT

*For more information, visit [tncot.cc/7keys](http://tncot.cc/7keys)*

### BUILDING A STRONG BUDGET FOR A RESILIENT GOVERNMENT

**Structurally Balanced Budget** – A budget is structurally balanced when recurring revenues are sufficient to pay recurring expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance indicate the budget is not structurally balanced. [TCA § 9-21-403]



**Cash Flow Management** – A local government's ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior

### PLANNING FOR UNKNOWNNS

**Rainy Day Reserve** – Beyond liquidity management, local governments need to have reserves for unforeseen events like natural disasters or economic downturns. A government that creates a rainy-day fund should at times expect to use the reserves, but also have a policy for replacing the funds.



**Contingency Spending Plans** – Knowledge of what part of a budget is discretionary and can be legally and practically cut is necessary for dealing with unforeseen circumstances. If an event decreases a significant revenue source or increases spending during a year and revenues cannot be adjusted quickly then cuts to expenditures are necessary. Prior planning as to what cuts will be made will expedite the recovery.

### PLANNING FOR TOMORROW

**Long-Term Liability Planning** – Debt, pension, and OPEB payments are set amounts in the annual budget. The larger



# Seven Keys to a Fiscally Well-Managed Government

## Cash Flow Management



A local government's ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior to its adoption, the budget must contain adequate revenues along with cash on hand to fund the government throughout the year. In addition, local governments need to have plans in place if additional sources of liquidity either internally (interfund tax anticipation note "TAN") or externally (bank issued TAN) prove to be necessary. [TCA § 9-21-801]

# Seven Keys to a Fiscally Well-Managed Government

A	B	C
<p data-bbox="351 391 917 548"><b>Building a Strong Budget for a Resilient Government</b></p> <p data-bbox="580 548 687 644">↓</p>	<p data-bbox="1116 391 1437 491"><b>Planning for Unknowns</b></p> <p data-bbox="1225 548 1332 644">↓</p>	<p data-bbox="1753 391 2074 491"><b>Planning for Tomorrow</b></p> <p data-bbox="1862 548 1969 644">↓</p>
<ol data-bbox="326 739 932 1025" style="list-style-type: none"><li>1. Structurally Balanced Budget</li><li>2. Cash Flow Management</li><li>3. Forecasting Budgetary Amounts</li></ol>	<ol data-bbox="975 739 1538 901" style="list-style-type: none"><li>4. Rainy Day Reserve</li><li>5. Contingency Spending Plans</li></ol>	<ol data-bbox="1612 739 2130 968" style="list-style-type: none"><li>6. Long-Term Liability Plan</li><li>7. Multi-Year Financial Planning</li></ol>

# Forecasting Budgetary Amounts



TENNESSEE COMPTROLLER OF THE TREASURY





# Forecasting Budgetary Amounts

## Forecasting Budgetary Amounts

Mechanisms for forecasting revenues and expenditures that consider economic trends and growth rates provide for reliable revenue estimates. Local governments that do not routinely forecast budgetary amounts may find revenues overstated and expenditures understated. [TCA § 9-21-403]

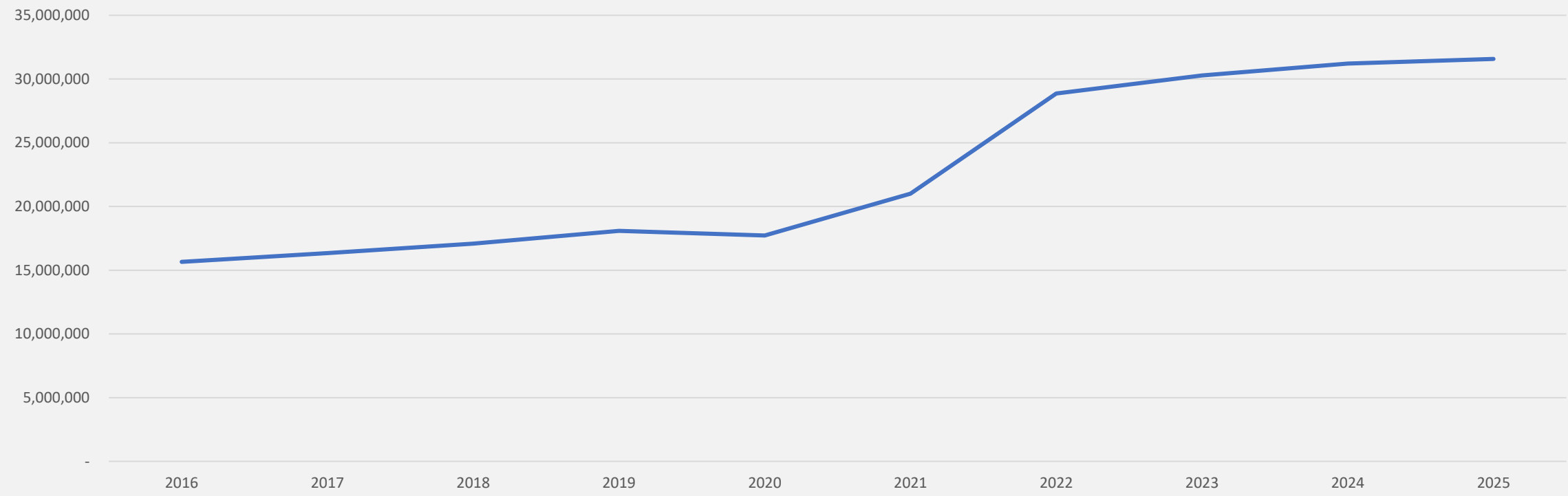


# Forecasting Tools

- Comptroller Tools:
  - <https://comptroller.tn.gov/office-functions/lgf/budgets/budget-schedules-estimators.html>
  - How to Videos
- GFOA Tools
  - <https://www.gfoa.org/forecastbook>
  - <https://www.gfoa.org/materials/topic/budgeting-and-forecasting>
  - <https://www.gfoa.org/cash-flow-forecasting>

# Forecasting Tools

Local Option Sales Tax



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Local Option Sales Tax	15,654,684	16,347,135	17,075,986	18,084,089	17,726,690	20,999,864	28,872,766	30,278,472	31,212,412	31,576,874
Year over Year Growth	N/A	4.4%	4.5%	5.9%	-2.0%	18.5%	37.5%	4.9%	3.1%	1.2%

# Forecasting Tools

## Question Time?

### Revenues

- Economic outlook?
- Businesses opening in the area?
- Businesses closing in the area?
- Population growth or loss?
- Tax or rate increases?

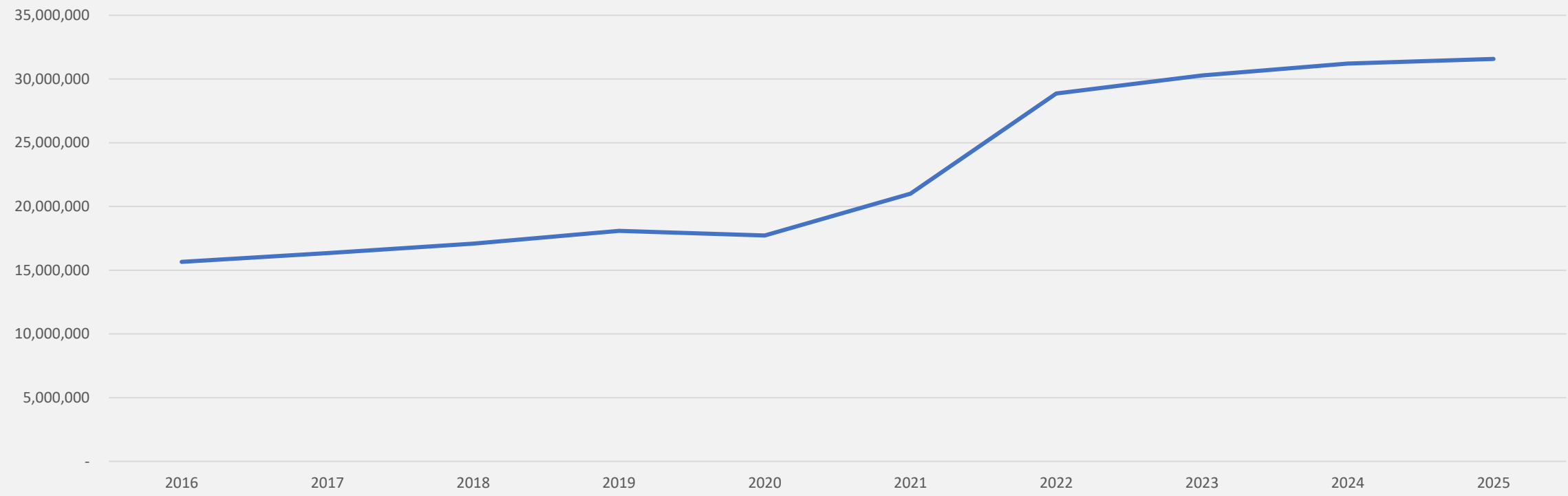
### Expenditures

- Do I need to hire?
- What level of raises?
- Benefit cost increases?
- What maintenance is required?
- Interest rates if borrowing or have variable rate debt.



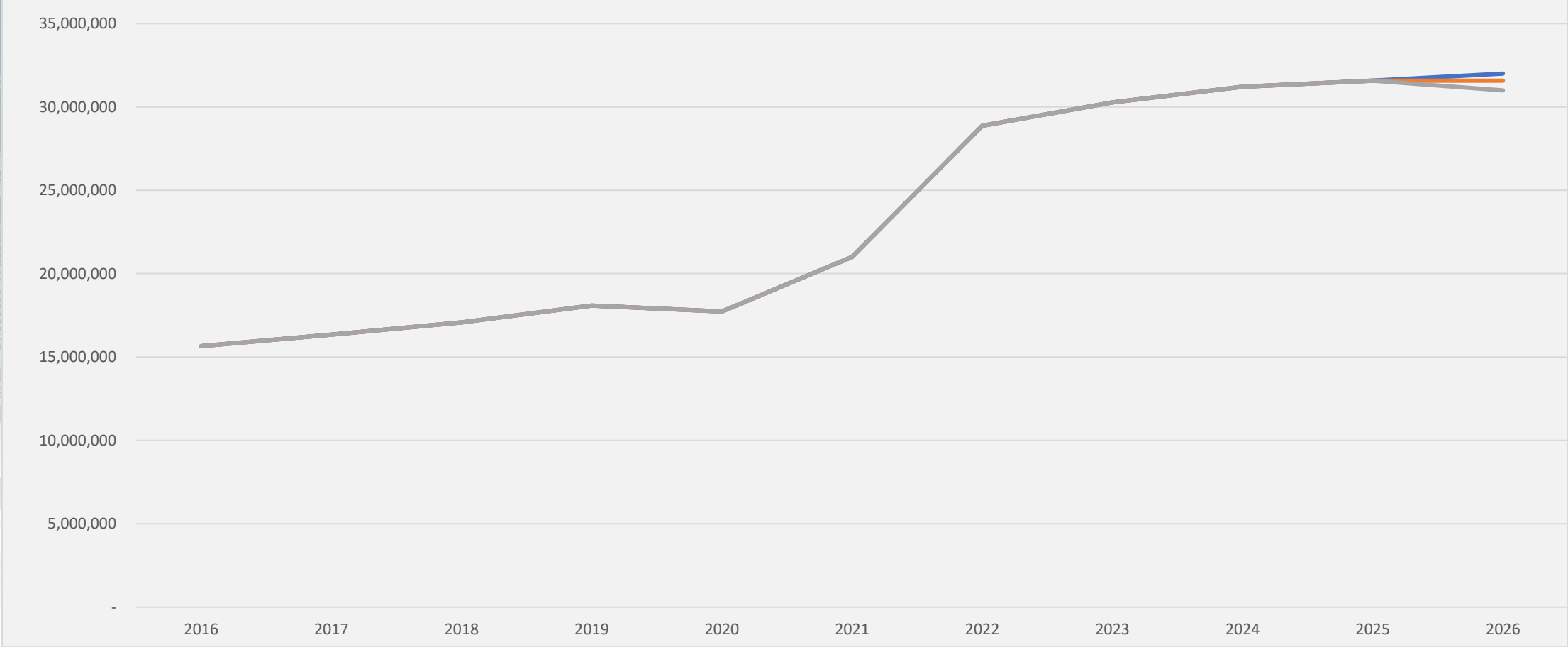
# Forecasting Tools

Local Option Sales Tax



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Local Option Sales Tax	15,654,684	16,347,135	17,075,986	18,084,089	17,726,690	20,999,864	28,872,766	30,278,472	31,212,412	31,576,874
Year over Year Growth	N/A	4.4%	4.5%	5.9%	-2.0%	18.5%	37.5%	4.9%	3.1%	1.2%

# Forecasting Tools



# Financial Health Metrics

Financial Distress Metrics	Description	No Concern	Mild Concern	Distress Concern
Cash as a percent of Expenditures	How much cash do I have to pay cash flow and unexpected spending?	Above 15%	15% to 8%	Less than 8%
Current Liabilities as a percent of cash	Have I been paying my bills?	Less than 25%	From 25% to 75%	Greater than 75%
Debt as a percent of Assessed Value	How Burdensome is my debt load?	Less than 8%	8% to 10%	Greater than 10%
Change in Fund Balance as a percent of Expenditures	How much did we overspend last year (if cash balance is also an issue)?	Positive value	0% to negative 2%	Less than negative 2%

# County Financial Data

General Fund	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Cash Balance Below 8% of Expenditures	6	2	4	0	0
Cash Balance Below 15% of Expenditures	5	0	0	3	1
Not Enough Cash to Pay All Current Liabilities	2	0	1	1	0
Use of Fund Balance	19	4	16	23	12

# City Financial Data

General Fund	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Cash Balance Below 8% of Expenditures	5	1	1	1	2
Cash Balance Below 15% of Expenditures	6	6	2	3	2
Not Enough Cash to Pay All Current Liabilities	8	5	4	6	1
Use of Fund Balance	77	27	44	62	53

# Cash Management

- Setting the Amount of Cash Held for Operations
  - Cashflow forecasting, at least annually
  - How variable are revenues?
  - How reliant are we on property taxes?
  - How variable are expenditures/expenses?
  - Pooled cash and reimbursements



# Cash Management

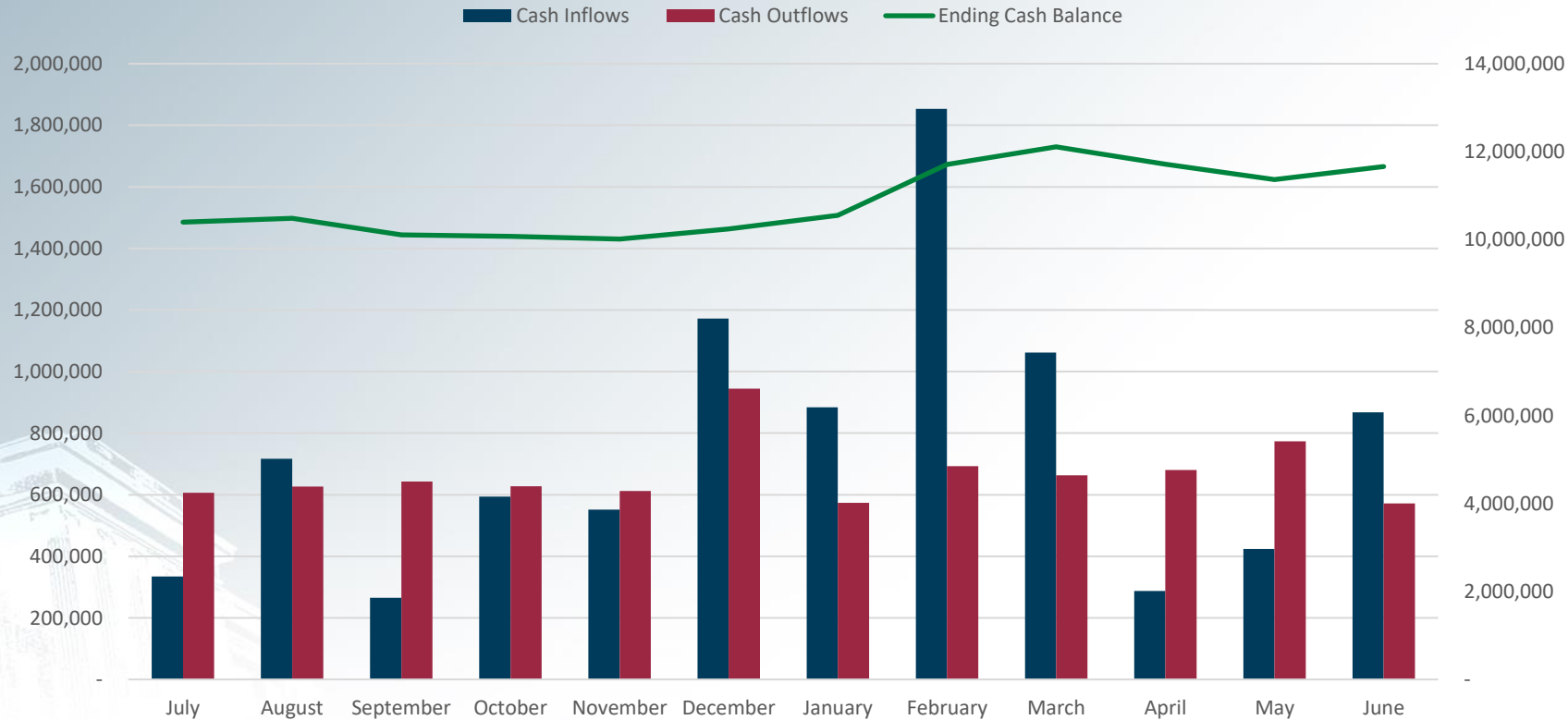
	July	August	September	October	November	December	January	February	March	April	May	June	Annual
Beginning Cash Balance	\$ 10,665,389	\$ 10,394,071	\$ 10,484,490	\$ 10,107,098	\$ 10,073,283	\$ 10,012,462	\$ 10,240,234	\$ 10,551,071	\$ 11,710,919	\$ 12,109,576	\$ 11,717,486	\$ 11,368,681	\$ 10,665,389
<b>Add: Inflows</b>													
Estimated Cash Receipts	334,763	416,724	265,263	593,645	551,154	1,172,027	884,152	1,852,909	1,061,923	287,861	424,208	867,712	8,712,341
Loan Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-
Grant Proceeds	-	300,000	-	-	-	-	-	-	-	-	-	-	300,000
Total Cash Inflows :	334,763	716,724	265,263	593,645	551,154	1,172,027	884,152	1,852,909	1,061,923	287,861	424,208	867,712	9,012,341
Available Cash	11,000,152	11,110,795	10,749,754	10,700,744	10,624,437	11,184,489	11,124,385	12,403,980	12,772,842	12,397,437	12,141,695	12,236,393	19,677,730
<b>Less: Outflows</b>													
Estimated Cash Payments	606,082	626,304	642,655	627,461	611,975	794,255	573,314	693,061	613,267	679,950	773,014	572,146	7,813,483
Capital Projects	-	-	-	-	-	-	-	-	-	-	-	-	-
Grant Expense	-	-	-	-	-	150,000	-	-	-	-	-	-	-
Other Non-Operating Disbursements	-	-	-	-	-	-	-	-	50,000	-	-	-	50,000
Total Cash Outflows :	606,082	626,304	642,655	627,461	611,975	944,255	573,314	693,061	663,267	679,950	773,014	572,146	7,863,483
Ending Cash Balance	10,394,071	10,484,490	10,107,098	10,073,283	10,012,462	10,240,234	10,551,071	11,710,919	12,109,576	11,717,486	11,368,681	11,664,247	11,814,247
<b>Cash Inflows - Cash Outflows</b>	<b>\$ (271,318)</b>	<b>\$ 90,420</b>	<b>\$ (377,392)</b>	<b>\$ (33,815)</b>	<b>\$ (60,821)</b>	<b>\$ 227,772</b>	<b>\$ 310,837</b>	<b>\$ 1,159,848</b>	<b>\$ 398,656</b>	<b>\$ (392,089)</b>	<b>\$ (348,806)</b>	<b>\$ 295,566</b>	<b>\$ 1,148,858</b>

TENNESSEE COMPTROLLER OF THE TREASURY



# Cash Management

Cash Flow Summary



# Seven Keys to a Fiscally Well-Managed Government

A	B	C
<p data-bbox="359 394 912 548"><b>Building a Strong Budget for a Resilient Government</b></p> <p data-bbox="580 548 690 644">↓</p>	<p data-bbox="1123 394 1437 491"><b>Planning for Unknowns</b></p> <p data-bbox="1225 548 1335 644">↓</p>	<p data-bbox="1760 394 2074 491"><b>Planning for Tomorrow</b></p> <p data-bbox="1862 548 1972 644">↓</p>
<p data-bbox="326 743 932 1022">1. Structurally Balanced Budget 2. Cash Flow Management 3. Forecasting Budgetary Amounts</p>	<p data-bbox="978 743 1538 901">4. Rainy Day Reserve 5. Contingency Spending Plans</p>	<p data-bbox="1615 743 2130 965">6. Long-Term Liability Plan 7. Multi-Year Financial Planning</p>

# Cash Management

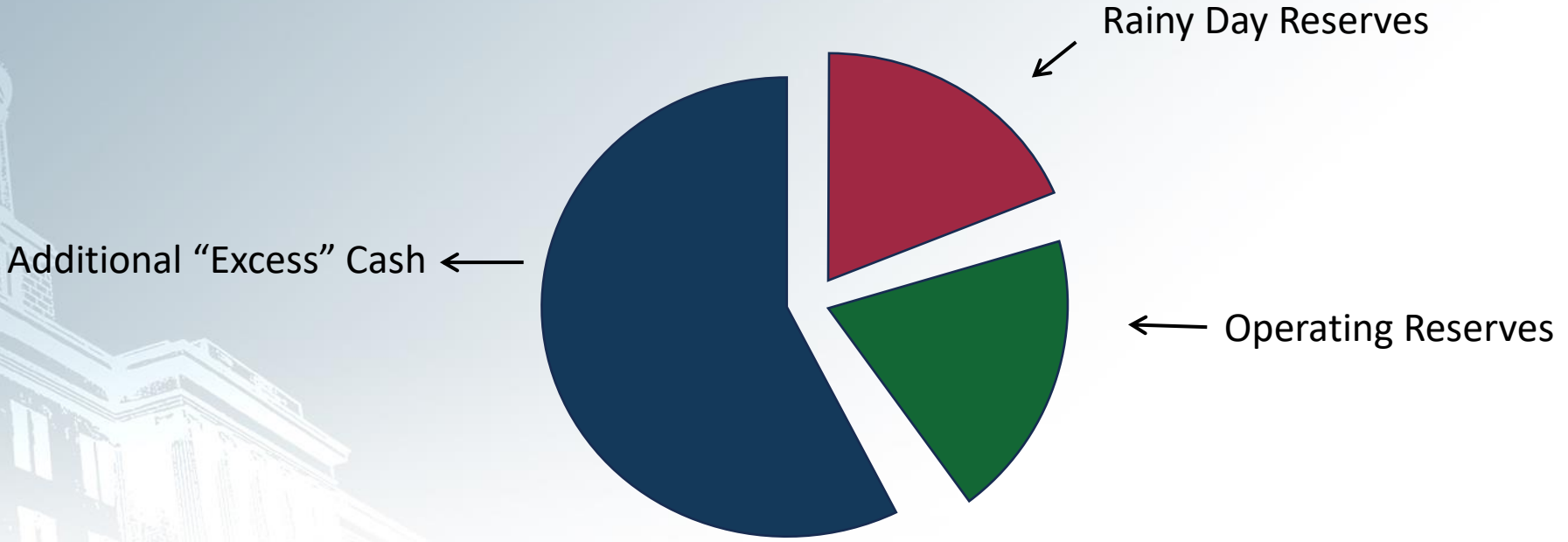
- Setting the amount of rainy-day funds
  - Future recessions
  - Natural disasters
  - Unforeseen maintenance or replacement
  - Other

# Cash Management

- Operating Reserves
  - 25% of annual expenditures
- Rainy Day Reserves
  - 16% of annual expenditures



# Cash Management



# Cash Management

## Cash Management Policy

- Minimum cash on hand to meet operating cash needs throughout the year.
- Annual cashflow forecast to determine cash needs.
- Address pooled cash accounts and reimbursements between funds.
- Adequate reserve levels for unexpected events.
- Consider both short-term and long-term health.
- If cash reserves dip below minimum levels, immediate measures should be taken to restore the reserves.
- Investment of excess cash and rainy-day reserves

# Cash Management

- Investment of idle cash
  - How much can I invest?
  - What term should I invest in?
- Tenants of investing public funds
  - Authorized
  - Safety and risk tolerance
  - Yield

# Cash Management

- Investment of idle cash (LGIP)
  - <https://treasury.tn.gov/Investments/Investment-Management/Local-Government-Investment-Pool>
  - <https://treasury.tn.gov/Investments/Investment-Management/Intermediate-Investment-Fund>

Intermediate Investment Fund

☎ (615) 532-8722

Local Government Investment Pool

☎ (615) 532-1163

Month	2024
January	5.35%
February	5.32%
March	5.32%
April	5.31%
May	5.32%
June	5.33%
July	5.33%
August	5.27%
September	5.15%
October	4.94%
November	4.74%
December	4.56%

TENNESSEE COMPTROLLER OF THE TREASURY

# Implementation

- Annually review cash management policy and perform cash flow analysis of all operating funds.
- Recommend any needed changes to the policy or amounts of reserves to the governing body for action.
- Monitor cash balances throughout the year.
- Monitor investments for needed changes (investment, duration, yield).
- Make the cash flow charts part of the budget presentation.



# Best Practices in Debt Management

TENNESSEE COMPTROLLER OF THE TREASURY



# Seven Keys to a Fiscally Well-Managed Government

A	B	C
<p data-bbox="351 391 917 548"><b>Building a Strong Budget for a Resilient Government</b></p> <p data-bbox="580 548 687 644">↓</p>	<p data-bbox="1116 391 1437 491"><b>Planning for Unknowns</b></p> <p data-bbox="1225 548 1332 644">↓</p>	<p data-bbox="1753 391 2074 491"><b>Planning for Tomorrow</b></p> <p data-bbox="1862 548 1969 644">↓</p>
<p data-bbox="326 739 932 1019"><b>1. Structurally Balanced Budget</b> <b>2. Cash Flow Management</b> <b>3. Forecasting Budgetary Amounts</b></p>	<p data-bbox="975 739 1541 901"><b>4. Rainy Day Reserve</b> <b>5. Contingency Spending Plans</b></p>	<p data-bbox="1612 739 2135 962"><b>6. Long-Term Liability Plan</b> <b>7. Multi-Year Financial Planning</b></p>

# Debt Management

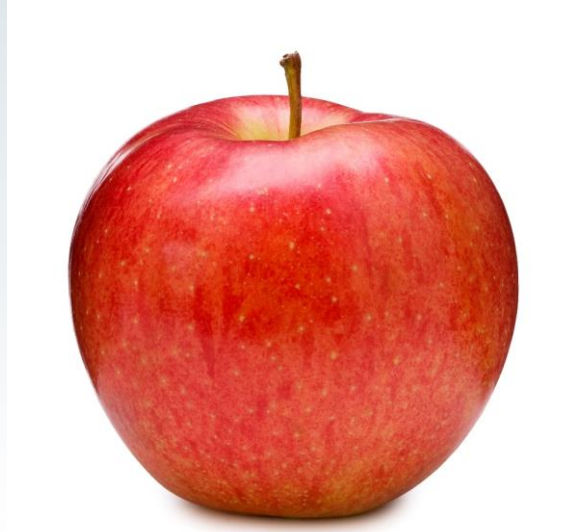


TENNESSEE COMPTROLLER OF THE TREASURY



# Debt Management

- Tenn. Code Ann. Section 9-21-103 provides that there is no debt limit.
- However,





# Debt Management

- How to think about debt limitations:
  - Absolute—amount of debt outstanding per-security
  - Affordability—amount of annual debt service
- Metrics
  - Debt to Assessed Property Value
  - Debt Per-Capita
  - Debt Service as a Percent of Revenue or Expenditures
  - Debt Coverage Ratio (Revenue Debt)



# Financial Health Metrics

Financial Distress Metrics	Description	No Concern	Mild Concern	Distress Concern
Cash as a percent of Expenditures	How much cash do I have to pay cash flow and unexpected spending?	Above 15%	15% to 8%	Less than 8%
Current Liabilities as a percent of cash	Have I been paying my bills?	Less than 25%	From 25% to 75%	Greater than 75%
Debt as a percent of Assessed Value	How Burdensome is my debt load?	Less than 8%	8% to 10%	Greater than 10%
Change in Fund Balance as a percent of Expenditures	How much did we overspend last year (if cash balance is also an issue)?	Positive value	0% to negative 2%	Less than negative 2%

# Financial Health Metrics

Counties	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Debt to Assessed Value Over 10%	4	1	0	0	0

Municipalities	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Debt to Assessed Value Over 10%	6	5	7	5	3

# Debt Management



# Debt Management

- Total Cost — \$20 million
- Cash Investment — \$5 million
- Grant Received — \$2.2 million
- Amount to Finance with GO Bonds — \$12.8 million
  - Estimated Interest Rate — 4.0%
  - Term — 20 years
  - Cost of Issuance — \$200,000
  - Annual Debt Service — \$1 million



# Debt Management

- Debt Management Policy
  - Total general governmental debt as a percent of total assessed value less than 5%
  - Total general governmental debt service as a percent of total general governmental funds expenditures less than 25%



# Debt Management

Assessed Value	\$ 780,696,750	Expenditures	\$ 12,500,000
Current GO Debt	12,000,000	Old Debt Service	850,000
Current Debt /Assessed Value	1.54%	Debt Service / General Fund Revenues	6.80%
New Debt	\$ 13,000,000	New Debt Service	\$ 1,000,000
New Total Debt	25,000,000	New Total Debt Service	1,850,000
New Ratio	3.20%	New Ratio	14.80%

# Debt Management

- Debt Affordability

Revenues	10,750,000
Expenditures	10,145,000
Revenues - Expenditures	605,000
New Debt Service	1,000,000
New Revenue needed to Breakeven	395,000
Needed to comply with Fund Balance Policy 25%	553,000

# Debt Management

- Continuing Disclosure Agreements (CDA)
  - Provide a copy of the audited financial statements within 180 days for year end.
  - Disclose material events to the MSRB
- Written CDA Procedures
  - Identify responsible person
  - Make accurate lists of debt with CDAs
  - Review and understand CDAs prior to closing on new debt
  - Keep a list of required EMMA event disclosure filings
  - Address record retention
  - Training

# Debt Management

- Covenant—Contractual obligations set forth in a bond contract (MSRB)
  - Understand what covenants you have
  - Are you in compliance with all your covenants?
  - What is needed to comply
  - Check regularly
  - Identify responsible person

### Cash Relative to General Fund Expenditures Metric | FY 2023

### Debt Relative to Assessed Value Metric | FY 2023

**Cash on Hand:**  
**\$133,849,311**

**Annual Expenditures:**  
**\$452,055,014**

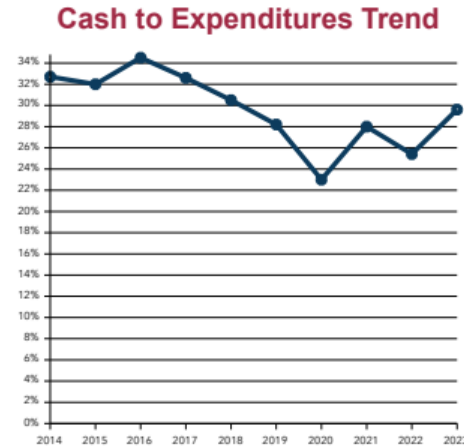
Using only cash,  
the County could fund  
**108**

Days of Average Expenditures  
before exhausting cash reserves

**30%**  
of Annual Expenditures can  
be paid with available cash

**No Concern**

**Target: Above 16%**  
**Average County: 55%**



*As a best practice, counties should have cash reserves sufficient to cover at least two months or 60 days of average expenditures without using additional financing resources. Without adequate reserves, a county could expose itself to greater fiscal distress risk.*

**General Government Debt:**  
**\$927,225,586**

**4%**  
Ratio of outstanding debt  
relative to assessed value

**Assessed Value:**  
*Defined as: The estimated total property tax base or the portion of appraised values within the county subject to property taxation.*  
**\$25,432,276,362**

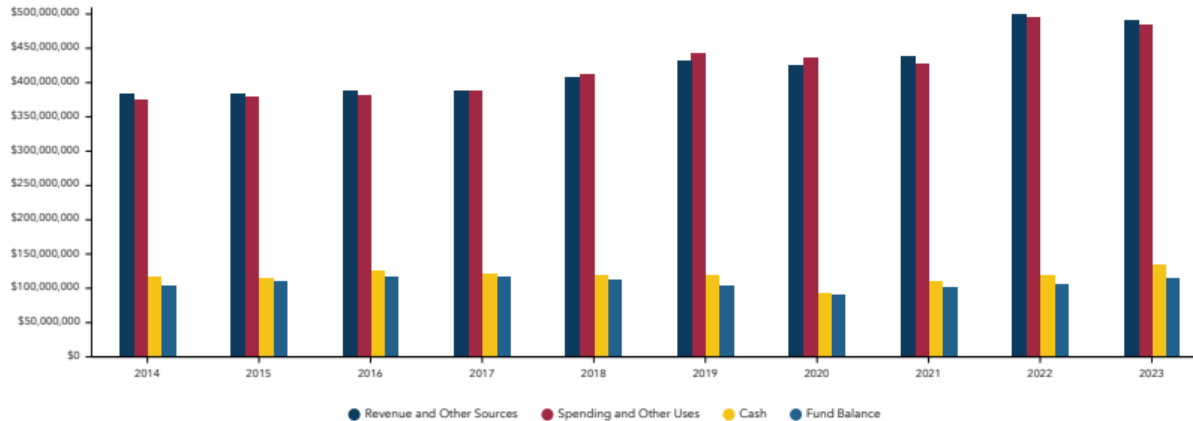
**No Concern**

**Target: Below 8%**  
**Average County: 3%**

*As a best practice, counties should set debt limits or acceptable ranges. High debt service obligations can reduce financial flexibility and crowd out other potential expenditures. One recommendation is keeping the total outstanding debt below 8% of property assessed value.*

### General Fund 10-Year Financial Trend | FY 2014 - FY 2023

### Comptroller Budget Review | FY 2024



**Budget Status: Approved**  
**Budget Certificate: No**

To qualify for a budget certificate, a county must:

- \* Adopt budget on or before fiscal year end
- \* File budget with COT Local Government Finance within 15 days of adoption
- \* Have no issues of concern during review
- \* Not be under oversight of Tennessee Board of Utility Regulation

For more information: [tncot.cc/budgetcertificates](http://tncot.cc/budgetcertificates)



# Assets as a Service



TENNESSEE COMPTROLLER OF THE TREASURY







Questions?

Thank  
You!

TENNESSEE COMPTROLLER OF THE TREASURY

