

Cash Flow Forecasting

Increasingly Important Function

As local government agencies grapple with limited revenue generation options and rising operating costs, cash management becomes an increasingly important function. Without adequate cash on hand, governments may struggle to make payroll, become delinquent with debt service payments and risk a lower credit rating. Additionally, interest earnings may suffer if cash is not invested to maximize returns. One of the most commonly recommended management tools in any business is the cash flow forecast. A well-designed and comprehensive cash flow forecasting model can provide managers, treasurers and policy makers the information needed to:

- More strategically invest funds to maximize returns
- Anticipate if short-term borrowing would be needed to meet cash needs throughout the fiscal year
- Determine appropriate levels of cash reserves to minimize borrowing
- Improve management of internal cash transfers between funds
- Understand how new policies and mandates may impact cash position.

Our Approach to Cash Flow Forecasting

Forecasts will change over time, as economic conditions and operational needs change. For this reason, it is important that a cash flow forecast be designed to enable internal staff the ability to revise the forecast on an on-going basis. Municipal Analytics' approach to developing a cash flow forecast is based on developing a spreadsheet model that provides lasting utility to the municipality.

Our process includes:

- Examining prior years' monthly financial data to determine the timing of receipts and disbursements
- Forecasting annual revenues and expenditures, based on input from department heads and management
- Applying historical trends to estimated future income and expenditures
- Calculating necessary float and cash available for investing short- or long-term
- Developing a mechanism to monitor variances from forecasted values to actual
- Training staff to use the model on on-going basis.

All assumptions used in the forecast are clearly stated and easily changed, to reflect current economic or operating conditions.

Experience

Municipal Analytics has conducted a number of projects focusing on municipal financial and cash flow forecasting, ranging from city-wide quarterly analysis to monthly forecasts for county governments. A complete listing of experience is available upon request.

Contact Us

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