



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Importance of Cash Reserves for County Budgeting and Financial Management

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Agenda

What are cash reserves?

Why are they important?

How to establish adequate cash reserves

Are my cash reserves adequate?

Cash Reserve (Tax Collection) Timeline

Cash Reserve Limits

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Cash Reserves – What are they?

- Money in the bank that has not been spent yet.
- Typically General Fund and Inheritance Fund are used for cash reserves
 - Your County may have established a sinking fund or some other “set aside” fund already

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Cash Reserves – What are they?

- Other Funds are likely restricted for a specific purpose and not available for general expenditures of the County
 - Such as:
 - Road Fund must be used for road purposes
 - Preservation and Modernization Fund must be used for preservation of records
 - Bond Funds must be used to payoff bonds
 - Other funds that may be restricted to specific purposes by statute, grant agreement, etc.
 - If specific Funds are restricted for a specific purpose, should not be considering them as part of the “cash reserve” balance of the County

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Why are they important?

- Provide adequate cash flow for your County:
 - During low tax collection times
 - When unexpected costs come up
 - When large one-time purchases need to be made
- Currently many Counties rely on their Inheritance Tax Fund as their primary source for cash reserves
 - What happens if Inheritance Tax is eliminated, and you can no longer transfer money from Inheritance Fund?
 - Need to be thinking of other ways to build up adequate cash reserves

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Why are they important?

- County Board cannot approve claims that they don't have enough money in a particular fund to pay
 - In other words, you cannot have negative fund balances
- Neb. Rev. Stat. § 77-2203 requires warrants to be registered until sufficient money is available in the fund to pay:

Whenever a warrant is presented for payment to any such treasurer and there is not sufficient money on hand to the credit of the proper fund to pay the same, it shall be the duty of every such treasurer to enter such warrant in his warrant register for payment in the order of its presentation, and upon every warrant so presented and registered, he shall endorse registered for payment, with the date of registration, and shall sign such endorsement.

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Why are they important

- If County does not have enough money in a Fund to pay claims, and they do not want to register warrants, options are:
 - Transfer money from another unrestricted fund (currently that would typically be Inheritance Fund)
 - Register the warrant, and don't pay for it (what happens if it is payroll? Employees don't get paid? Vendors aren't going to be happy if they aren't getting paid)
 - Come up with some other way to finance the purchase - typically bond issuance which comes with additional costs that could be avoided if adequate cash reserves are available
 - Could also consider lease-purchase agreement for large purchases
 - Authority to borrow money in Neb. Rev. Stat. § 23-160.01

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Authority to Borrow Money

- Neb. Rev. Stat. § 23-160.01

23-160.01. Authority to borrow money; conditions.

The county board of each county in this state may borrow money in an amount sufficient to pay all valid, legally existing warrants of the county hereafter drawn on any county fund, which is legally entitled to participate in the annual allocation of revenue, but subject to the following limitations and requirements, to wit:

(1) Money shall not be borrowed in excess of the amount required to pay warrants issued and embraced within the limits imposed by law upon the right of a county to draw and issue warrants.

(2) The money so borrowed may not be used for any purpose other than payment of such warrants.

(3) The obligation thus incurred shall be evidenced by a negotiable promissory note or notes issued in the name of the county, signed by the chairman of the board and witnessed by the county clerk.

(4) The note may run for not more than one year, but shall be callable by the county at any time, and may draw interest at a rate to be determined by the county board.

(5) Such note or notes, before being negotiated, shall be presented to the county treasurer of the county and registered by said officer, and shall be payable out of the revenue collected, received and credited to such fund or funds.

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Cash Reserve Formula
Beginning Cash Reserve (Fund Balance)
Plus: Budgeted Receipts Other than Property Taxes
Plus: Property Tax Request
Equals: Total Resources Available
Minus: Budgeted Disbursements
Equals: Budgeted Ending Cash Reserve

How to establish cash reserves

- Completed during the annual budget adoption process
- Effectively adopt a budget that spends less than you are projecting to have available.

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How to establish cash reserves

- To increase cash reserves, need to receive more than you are spending
- Either
 - Make changes that increase the amount of money coming into the County
 - Raise property taxes, raise fees charged for services (that aren't set by statute), receive more grant funding, etc. OR
 - Reduce spending
- Consider transferring unrestricted money to a sinking fund so it is clearly "set aside"
 - Refer to Code Manual on APA website for Fund numbers to use

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Cash Reserve Example

- Accurately budgeting estimated revenue other than property taxes is just as important as how much you are budgeting to spend
- **Example Scenario:**
 - County starts the year at 7/1/2023 with \$100,000 balance in their General Fund
 - County budgets to receive \$1,000,000 in revenue besides property taxes, and has a \$1,000,000 property tax request
 - County budgets to spend \$2,000,000 from their General Fund, and end the year with a \$100,000 budgeted cash reserve
 - Fiscal Year 2024 goes by, and the County ends up only receiving \$500,000 in revenue besides property taxes. All else remaining the same, the County would end the year with \$(400,000) in their General Fund

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	General Fund	
	Budget	Actual
Fund Balance - 7/1/23	100,000	100,000
Receipts Other than Property Taxes	1,000,000	500,000
Property Tax Request	1,000,000	1,000,000
Total Resources Available	2,100,000	1,600,000
Budgeted Disbursements	2,000,000	2,000,000
Ending Cash Reserve - 6/30/24	100,000	(400,000)

Cash Reserve Example

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Cash Reserve Example

	General Fund	
	Budget	Actual
Fund Balance - 7/1/23	100,000	100,000
Receipts Other than Property Taxes	1,000,000	1,500,000
Property Tax Request	1,000,000	1,000,000
Total Resources Available	2,100,000	2,600,000
Budgeted Disbursements	2,000,000	2,000,000
Ending Cash Reserve - 6/30/24	100,000	600,000

- If the opposite is true, and actual receipts come in higher than budgeted:
 - Could be good if you are trying to build up cash reserves; OR
 - If your cash reserves are otherwise already adequate, you taxed more than you needed to

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Are my cash reserves adequate?

- This is a decision that needs to be made by the County, particularly the County Board
 - You are most knowledgeable about what is going on in your county, your spending needs, etc.
- Some financial experts recommend a 25% cash reserve
 - In other words, your cash reserve should be enough to cover 3 months worth of expenditures
 - Example: County spends \$4,000,000 per year; 25% cash reserve would be \$1,000,000

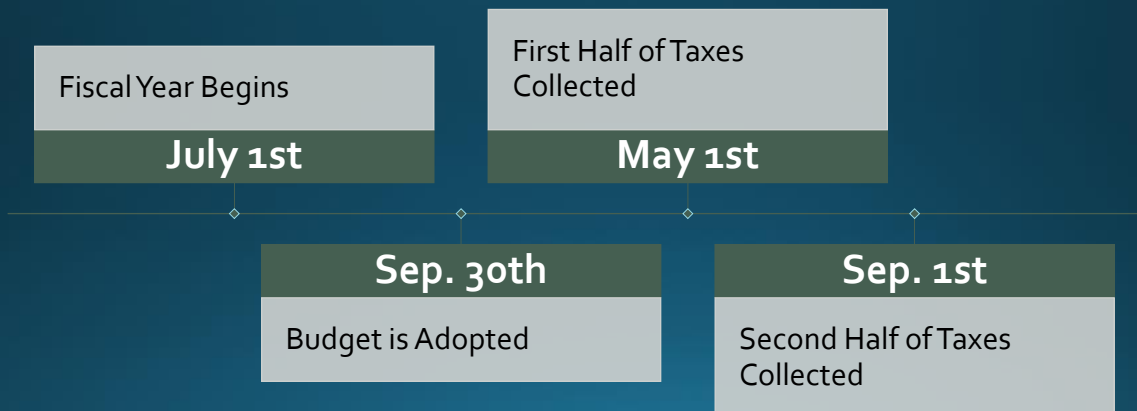
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Are my cash reserves adequate?

- Look at low tax collection periods, and see what your fund balances are
 - Are they too low for comfort? Are you having to transfer money because you don't have enough to pay claims out of a given fund?
- County Board should be receiving and reviewing monthly fund balance reports from the County Treasurer so the Board knows how much money the County has.

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Cash Reserves (Tax Collection) - Timeline



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Cash Reserves - Timeline

Property Taxes to fund the budget do not start coming in until fiscal year is almost over

Authority to spend the money is there right away, but that doesn't mean the actual money is in the bank to spend

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Cash Reserves

Budget \neq Money in the Bank

Budget might say you have authority to spend the money; but that doesn't mean there is money in the fund to spend that money

As discussed previously, if no money in the fund – cannot spend money



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Cash Reserve Limits



Counties are subject to BOTH the Nebraska Budget Act (Chapter 13, Article 5) and the County Budget Act (Chapter 23, Article 9).



Limits on Cash Reserves are found in both the Nebraska Budget Act and County Budget Act

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Cash Reserve Limits – NE Budget Act

- Neb. Rev. Stat. § 13-503

(6) Cash reserve means funds required for the period before revenue would become available for expenditure but shall not include funds held in any special reserve fund

(9) Special reserve fund means any special fund set aside by the governing body for a particular purpose and not available for expenditure for any other purpose. Funds created for (a) the retirement of bonded indebtedness, (b) the funding of employee pension plans, (c) the purposes of the Political Subdivisions Self-Funding Benefits Act, (d) the purposes of the Local Option Municipal Economic Development Act, (e) voter-approved sinking funds, or (f) statutorily authorized sinking funds shall be considered special reserve funds

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Cash Reserve Limits – NE Budget Act

- Neb. Rev. Stat. § 13-504 provides the following, as is relevant:

(1) Each governing body shall annually or biennially, as the case may be, prepare a proposed budget statement on forms prescribed and furnished by the auditor. . . . A proposed budget statement shall contain the following information, except as provided by state law:

** * * **

(c) For the immediately ensuing fiscal year or biennial period. . . the amount of cash reserve, based on actual experience of prior years or biennial periods, which cash reserve shall not exceed fifty percent of the total budget adopted exclusive of capital outlay items


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Cash Reserve Limits – County Budget Act

- Neb. Rev. Stat. § 23-910

. . . The operating reserve in no event shall be more than fifty percent of the total expenditures for the fund during the last completed fiscal year. . .

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Always available to help with any questions that may come up during the budget adoption process

QUESTIONS?