AMERICAN DEPOSIT MANAGEMENT

WHITEPAPER

THE MUNICIPAL CASH MANAGEMENT PLAYBOOK

How Cities, Counties and Towns Can Balance Safety, Liquidity and Yield

A Practical Guide for Municipal CFOs, Finance Directors and Treasurers

November 2026



Cities, towns, villages, and counties face pressure to fund essential services, maintain infrastructure, and plan for uncertain revenue and expenditure cycles. While budgeting and cost control receive considerable attention, another opportunity is worth examining: how effectively local governments manage the cash they already hold.

Effective cash management means knowing when dollars will be needed, keeping them appropriately protected, and evaluating whether idle cash can earn more without compromising liquidity or public accountability.

The Government Finance Officers Association (GFOA) identifies these three priorities as the foundation of public-fund investment management:



QUESTION WORTH ASKING

When was the last time we reviewed out entire cash strategy - not just the rate?

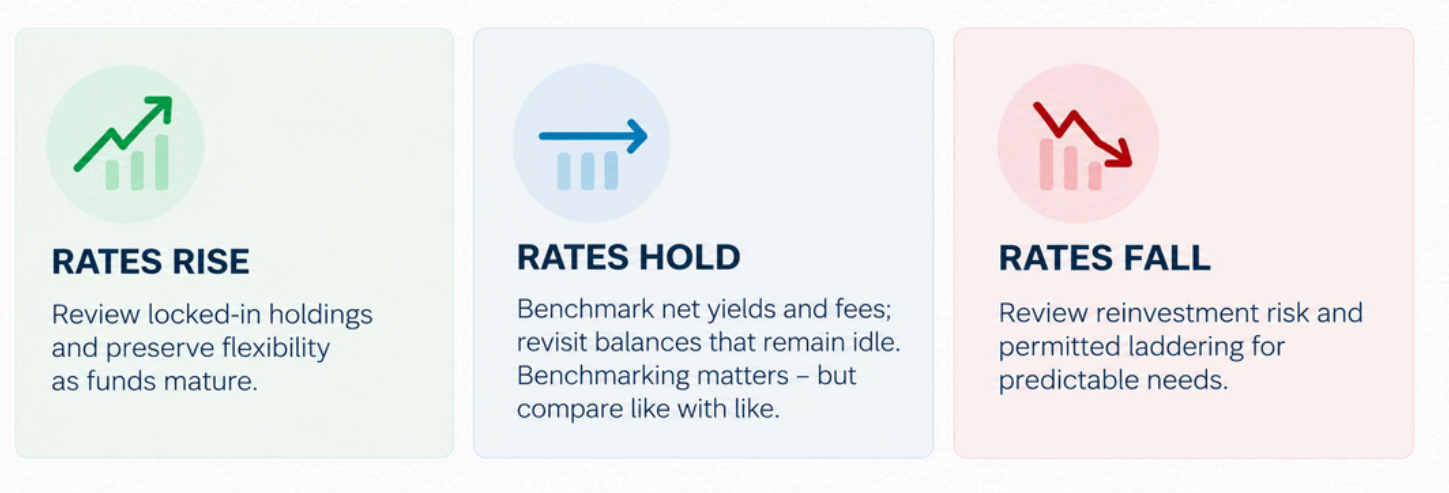
This whitepaper explores practical strategies to help municipalities better understand their cash positions, anticipate liquidity needs, protect public funds, evaluate investment options, and simplify the work involved in managing municipal cash.

You don’t need to predict the Fed rate. You need a plan that adapts.

When interest rates were near zero in the early 2020's, interest earnings weren't necessarily a major focus for many municipalities. But as rates have climbed, the opportunity to generate meaningful revenue from existing cash balances has grown.

So, rather than building a cash management strategy around where rates might go, municipalities should focus on developing a flexible solution.

Whether rates rise, fall, or remain steady, a well-planned strategy can help protect public funds, maintain liquidity, and make the most of available cash.



The goal isn't to predict the market perfectly. It's to avoid putting your municipality in a position where the strategy only works if rates move in one particular direction.

Benchmarking matters - but you need to compare like with like

When evaluating investment options, it's important to look beyond the quoted interest rate. A higher yield doesn't necessarily mean a better fit, especially when investments have different liquidity requirements, risks, and time horizons.

For example, an overnight liquid account and a six-month investment serve different purposes. One provides immediate access to funds, while the other may require committing those dollars for a specific period.

Similarly, bank deposits, local government investment pools, Treasury securities, and certificates of deposit can differ in liquidity, risk, protections, fees, and yield calculations. The highest quoted yield isn't necessarily the strongest option for a municipality's specific cash needs.

When benchmarking investment options, municipalities should consider three questions:

1. **Liquidity:** Do the investments being compared offer similar access to funds?
2. **Yield:** Are yields being compared on the same basis, over the same time period, and after applicable fees?
3. **Protection:** What types and levels of protection apply to each investment option?

KEY TAKEAWAY

Review the market consistently, but make changes based on cash needs and policy - not every rate announcement.

Not every dollar has the same job

A municipality's total cash balance is not its immediate liquidity requirement. Property tax collections, intergovernmental aid, utility revenues, payroll, debt service, road work, and capital projects arrive or occur on different schedules.

Keeping every dollar liquid provides flexibility, but it can also leave cash positioned more conservatively than actual spending requirements demand. Conversely, extending maturities without understanding future cash requirements can create liquidity risk.

As a starting point, the GFOA recommends that general-purpose governments maintain an unrestricted general fund balance equivalent to at least two months of regular operating revenues or expenditures, or approximately 16.7% of annual operating expenditures. This serves as a reserve benchmark, rather than a requirement to keep the entire amount immediately liquid.

A simple way to start thinking about this is to divide cash into three categories.

0-90 DAYS

Operating liquidity: payroll, vendors, emergency needs, and routine services. Prioritize ready access.

91 DAYS-12 MONTHS

Scheduled obligations: debt service, seasonal spending, and project draws. Consider permitted laddering.

BEYOND 12 MONTHS

Eligible reserves and longer-horizon capital funds. Consider permitted laddering aligned to actual needs.

It is important to note that each bucket might call for a different strategy. It's about matching the cash management approach to the municipality's actual obligations and comfort level.

ACTION ITEM: Give Every Dollar a Purpose

Review your municipality's current cash balances and group funds by their intended use and expected spending timeline. Identify which dollars need to remain immediately accessible and which may be available for a different cash management approach.

The goal: Understand where your cash is, what it's needed for, and when you'll need it.

Forecasting & Understanding Cash Flow: The Balance Isn't the Liquidity Requirement

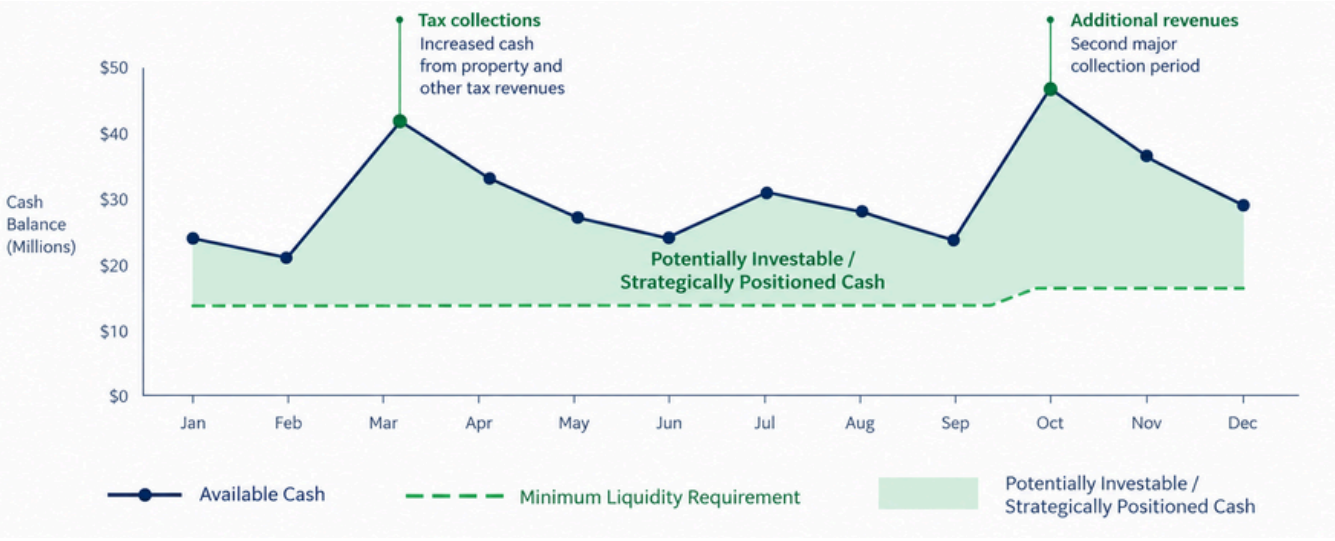
Municipal revenues and expenses don't always follow the same schedule. Property taxes are a good example. More than 90% of local governments rely on property taxes as a revenue source, and property taxes account for approximately 37% of total state and local tax revenue nationally. Yet these funds often arrive in large installments, while operating expenses continue throughout the year.

This creates periods when municipalities may hold significant cash balances that won't be needed immediately.

A useful cash-flow forecast accounts for three key elements: expected inflows, anticipated outflows, and a minimum liquidity cushion. The GFOA recommends maintaining a rolling 12-month cash-flow forecast to help governments anticipate liquidity needs and make informed decisions about available funds. Looking beyond current balances allows municipalities to better understand seasonal fluctuations, upcoming obligations, and when cash may be available for other permitted investment strategies.

For example, a county may receive substantial property tax collections that will be used over several months, while a city may hold funds designated for future utility or infrastructure projects. Understanding when those dollars will be needed can help guide how they're positioned in the meantime.

However, cash above a forecasted liquidity requirement isn't automatically available for investment. Fund restrictions, timing uncertainty, upcoming obligations, authorized investments, and potential changes in revenue or project schedules must all be considered.



A cash-flow forecast shouldn't just show whether a municipality has enough cash to meet its obligations. It should also help identify opportunities to put eligible funds to work more strategically.

Treat bond proceeds as its own category of cash

When a municipality issues bonds, it often receives a substantial amount of funding upfront, even though construction and capital expenses may be spread over several months or years.

As the project progresses, funds are drawn down to cover contractor payments, materials, and other project costs. This creates an opportunity to earn interest on funds that aren't immediately needed, while also introducing important considerations.

Project timelines can change, payment amounts may fluctuate, and certain bond issues carry specific investment, tax, and arbitrage requirements.

A thoughtful bond proceeds strategy starts with the project spending schedule, not the highest available yield. Understanding anticipated cash needs, permitted investments, and applicable restrictions helps municipalities protect bond proceeds, maintain liquidity, and put eligible funds to work until they're needed.

1 MAP THE SPENDING SCHEDULE

Build a forecast around construction milestones, contractor payments, retainage, and potential delays. Keep near-term draws liquid; evaluate longer-dated eligible balances against expected payment dates.

2 MATCH INVESTMENTS TO CASH NEEDS

Consider permitted liquid deposits, CDs, Treasury securities, or other authorized options based on when funds will be needed. Laddering maturities may help align cash availability with anticipated project expenses.

3 MONITOR COMPLIANCE AND WORKLOAD

Track proceeds by fund or project, document investment activity, and coordinate payments and reporting. Arbitrage rebate rules, yield restrictions, and applicable exceptions may require specialized review.

A coordinated approach between the municipality's finance team, investment professionals, and bond counsel can help simplify the process, maintain compliance, and ensure bond proceeds are managed effectively throughout the life of the project.

Safety first: understand what protects public funds.

Protecting principal is the starting point for municipal cash management decisions. However, not all forms of protection work the same way. FDIC insurance, collateralization, and investment diversification can each play a role in safeguarding public funds, but they provide different types of protection.

Understanding these distinctions is important when determining where and how to hold public funds, particularly when balances exceed standard insurance limits.

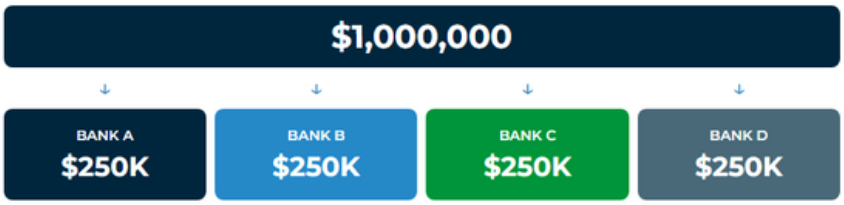
DEPOSIT INSURANCE	Deposits at FDIC-insured banks and federally insured credit unions may qualify for up to $250,000 in FDIC or NCUA insurance coverage per depositor, per institution, and per applicable ownership category. Spreading deposits across multiple insured institutions may provide access to additional coverage.
COLLATERALIZATION	Some public deposits are secured by pledged assets to cover amounts beyond deposit insurance. Requirements and eligible collateral vary by state law, account arrangement, and depository.
GOVERNMENT BACKING	Marketable U.S. Treasury securities are backed by the full faith and credit of the United States for timely principal and interest payments. Their market value can still change if sold before maturity.

ACTION ITEM: Determine Deposit Concentration & Risk

1. How much municipal cash is currently held at each financial institution?
2. How much is insured under applicable federal deposit insurance rules?
3. How are balances above insurance limits protected?
4. What collateral requirements apply, and how often is collateral monitored?

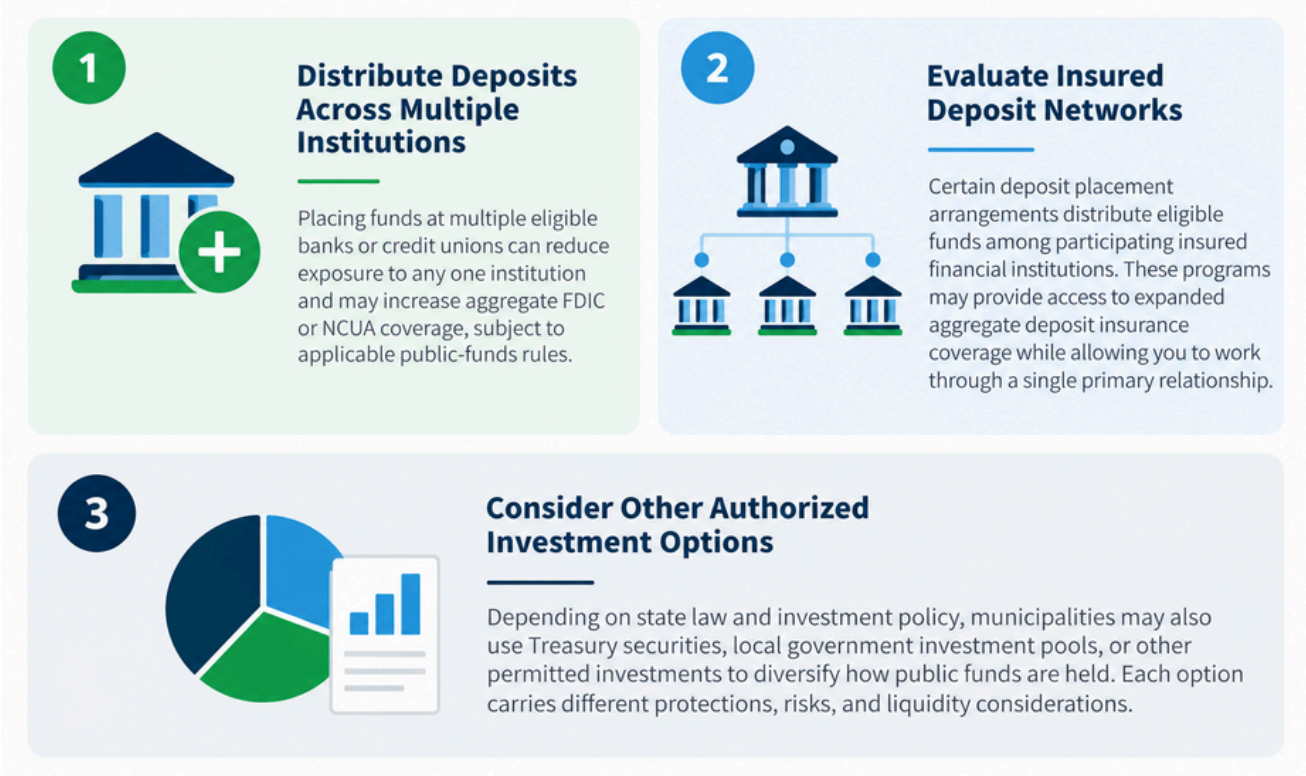
Safety first: understanding how to diversify fund to mitigate risk

Rather than concentrating a significant amount of cash with a single institution or investment type, a municipality may spread exposure across eligible institutions, instruments or maturities consistent with applicable law and its investment policy.



The GFOA specifically recommends diversification as a strategy for managing investment portfolio risk. However, this can eat up a lot of your time – opening accounts, managing multiple relationships, checking rates, moving funds, monthly statement reconciling, etc.

Three approaches to managing deposit concentration



A diversified approach should consider both financial protection and operational efficiency. The goal is to reduce unnecessary concentration while maintaining visibility, liquidity, and control over public funds.

Different dollars. Different investment options.

Municipalities may use several investment vehicles to balance protection, access to funds, and return potential. The right fit depends on when funds will be needed, legal authority, and the specific features of each option.

	Best for	Advantages	Limitations
Government Money Market Accounts	• Operating Funds • Short-term reserves • Funds needed in the near future	• High liquidity • Simple administration • Competitive short-term yields	• Rates fluctuate • FDIC coverage may be limited depending on balances
Certificates of Deposit (CDs)	• Bond proceeds • Capital project funds • Reserve balances • Laddered investment strategies	• Predictable rate of return • FDIC-insured • Predictable maturity dates • Low investment risk	• Funds are generally committed unitl maturity • Early withdrawal penalties may apply • Individual insitutions still have FDIC insurance limits
Treasury Bills, Notes or Bonds, Other Government Strategies	• Short-term reserves • Laddered investment strategies	• Backed by the U.S. Government • Predictable maturities • Strong credit quality	• Less liquid prior to maturity • May require additional administrative oversight

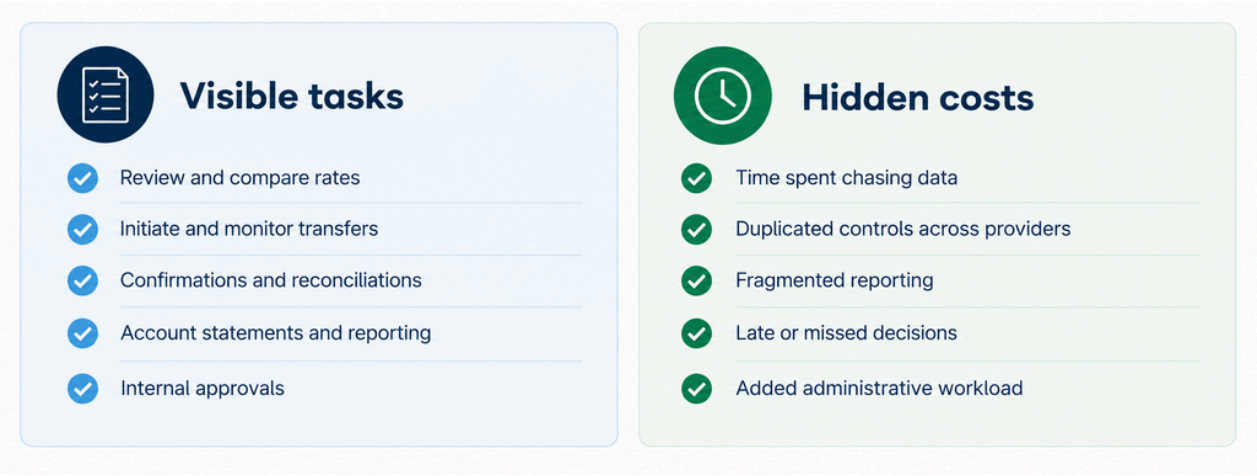
Match the investment to the purpose

Operating cash may require immediate access, while reserves or capital project funds may have more predictable time horizons. A mix of authorized vehicles can help align liquidity and maturities with expected spending rather than treating every dollar the same.

The hidden cost of managing municipal cash.

Interest earnings are only one part of an effective cash management strategy. The time and resources required to manage municipal funds can also have a meaningful impact on a finance team.

When evaluating the administrative workload, it's important to consider both visible tasks and hidden costs. While day-to-day responsibilities are easier to identify, less obvious inefficiencies can also consume valuable time and resources. Understanding both provides a more complete picture of what it takes to manage municipal cash effectively.



Some municipalities may be able to improve processes internally through better forecasting, standardized reporting, or more efficient use of existing banking tools.

Others may find value in working with a specialized cash management firm that can help coordinate certain activities, monitor rates, or consolidate aspects of the process.

The goal is not simply to reduce the number of tasks. It is to make sure the work being done supports informed decisions, timely access to funds, and reliable accountability.

ACTION ITEM: Review the Administrative Workload

Where does staff spend the most time managing cash? Which activities could be simplified through better processes, reporting tools, or outside support? Are controls and oversight still clear?

Different tools for different cash management needs

Municipalities have several options for managing and investing public funds. Traditional banks, local government investment pools (LGIPs), and specialized cash management firms each serve different purposes, with varying services, investment options, and levels of administrative support.

These approaches aren't necessarily mutually exclusive. A municipality may maintain its primary banking relationship, use an LGIP for certain balances, and work with a cash management firm to help manage other eligible funds.

Understanding what each option offers can help municipalities determine whether their current approach aligns with their financial goals, investment policy, and operational needs.



BANKS

Banks play an essential role in municipal financial operations, providing deposit accounts, payment processing, credit services, and other day-to-day banking functions. When evaluating deposit options, municipalities should consider interest rates, liquidity, deposit insurance, collateral requirements, and account administration.



LGIP

LGIPs allow eligible public entities to invest funds collectively through professionally managed pools. Many offer convenient access to funds, although liquidity provisions, investment holdings, fees, and risks vary.



CASH MANAGEMENT FIRMS

Cash management firms may help municipalities evaluate cash needs, access eligible deposit and investment options, diversify deposits, monitor balances, and simplify reporting or administrative responsibilities.

The right approach may include more than one

There isn't a single cash management solution that meets every municipality's needs. Different funds may require different levels of liquidity, protection, and oversight.

The 30-day municipal cash checkup

A focused review can uncover opportunities without requiring a complete overhaul of your treasury operations.

WEEK 1 | KNOW WHERE YOUR CASH IS
Inventory balances, yields, account structures, fund restrictions, and deposit protection.

WEEK 2 | UNDERSTAND WHEN YOU NEED IT
Review tax and other revenue cycles, operating outflows, debt service, capital draws, and liquidity needs.

WEEK 3 | EVALUATE YOUR OPTIONS
Compare appropriate benchmarks and assess safety, liquidity, fees, and permitted investments.

WEEK 4 | IDENTIFY ONE IMPROVEMENT
Refine forecasting, establish a quarterly review, evaluate eligible investments, or simplify a recurring task.

Five questions to bring to your finance team

- Are we earning a competitive return relative to comparable alternatives?
- How much cash must remain available for immediate obligations?
- Are deposits and investments appropriately protected and permitted?
- Can our approach adapt as interest rates and cash needs change?
- Could we reduce manual work while preserving strong controls?

THE BOTTOM LINE

Effective municipal cash management is not about chasing the highest rate. It's about safety, liquidity, yield, and efficiency.

One relationship. More ways to manage public funds.

American Deposit Management (ADM) works with municipalities and other public entities to help protect, manage, and optimize eligible cash balances. Through one relationship, ADM offers access to insured deposit solutions, investment options, cash visibility and reporting tools, and support for bond proceeds and vendor payments, as appropriate to each client's needs.

Rather than replacing a municipality's existing financial partners, ADM can complement those relationships by helping coordinate cash management activities and reduce administrative complexity.

Solutions that work together

Extended FDIC/NCUA Insurance

Access to eligible deposit placements across a network of financial institutions, with opportunities for extended FDIC/NCUA coverage.

Custom Investment Options & Plans

CDs and investment strategies aligned with your municipality's unique cash needs, maturity schedules, and investment policies.

Bond Proceeds Support

Cash-flow planning, investment coordination, vendor payment support, and assistance with arbitrage compliance.

Streamlined Operations

One relationship with portal visibility, reporting, account organization, and operational support to help reduce administrative workload.

Experience supporting public funds

$6B+	400+	1,800+
Funds managed and distributed	Banking partners	Organizations served

Jonathan Schatz
Senior Vice President, Business Development - Public Funds
jonathan.schatz@americandeposits.com | 847.287.3538