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Limit on Interfund Cashflow Borrowing (Budget Management and Compensation Reserves)

[LFB 2009-11 Budget Summary: Page 117, #6]

CURRENT LAW

The Secretary of Administration is authorized to temporarily reallocate to the general fund an amount equal to 5% of total GPR appropriations (approximately $685 million in 2009-10 and $711 million in 2010-11), in order to support the general fund's cashflow, from available balances in the state investment fund. In addition, the Secretary may permit a further 3% to be used for temporary reallocations to the general fund for a period not to exceed 30 days, which cannot be made for consecutive periods (approximately $411 million in 2009-10 and $427 million in 2010-11). In total, 8% of GPR appropriations ($1,096 million in 2009-10 and $1,138 million in 2010-11) may be allocated to the general fund on a temporary basis.

GOVERNOR

Increase the limit on temporary reallocations to the general fund from 8% of GPR appropriations in a given fiscal year to instead be 13% of GPR appropriations in that year. The aggregate limits on interfund cashflow borrowing would be $1,781 million in 2009-10 and $1,850 million in 2010-11.

DISCUSSION POINTS

1. The state uses the state investment fund as an investment pool for portions of retirement trust assets and cash balances of the state's various funds. In addition, local governments can elect to invest their cash balances in the fund. The state investment fund, which is managed by the State of Wisconsin Investment Board, had approximately $8.0 billion in assets during February,

2009.

2. Temporary reallocations of monies from one fund to another are allowed under current law to address a fund's cashflow problems, caused by an imbalance in timing of revenues and expenditures. Under 1997 Act 237, the limit on temporary reallocations to the general fund was increased from $400 million to an amount equal to 5% of the total gross GPR appropriation amounts for that fiscal year. The $400 million limit was retained for all funds other than the general fund. It was estimated at the time that the 5% limit would allow approximately $487 million in temporary general fund borrowing in 1997-98.

3. Under 1999 Act 9, the authority of the Secretary of Administration was expanded to allow the additional amount of 3% of GPR appropriations to be used for temporary reallocations to the general fund for a period not to exceed 30 days, in addition to the 5% limit. The modification provided additional borrowing of $315 million in 1999-00, in addition to the $525 million allowed by the 5% limit. The interfund borrowing limit has not been changed since that time.

4. Under the current law limit, approximately $685 million in 2009-10 and $711 million in 2010-11, equal to 5% of total GPR appropriations under the bill, is available to support the general fund's cashflow. In addition, approximately $411 million in 2009-10 and $427 million in 2010-11 is available as the additional 3% that may be used for temporary reallocations to the general fund for a period not to exceed 30 days. In total, $1,096 million in 2009-10 and $1,138 million in 2010-11 may be allocated to the general fund on a temporary basis, equal to 8% of GPR appropriations. Under the Governor's proposal, the aggregate limits on interfund cashflow borrowing would be $1,781 million in 2009-10 and $1,850 million in 2010-11. The following table compares the limits under the Governor's recommendation with current law.

Limits on Temporary Reallocations to Support the General Fund's Cashflow
($ in Millions)

	Current Law			Governor	
Limit	2009-10	2010-11	Limit	2009-10	2010-11
5%	$685	$711	10%	$1,370	$1,423
3% (30-day limit)	411	427	3% (30-day limit)	411	427
Total	$1,096	$1,138	Total	$1,781	$1,850

5. Funds that borrow money through temporary reallocations are charged interest at the earnings rate of the state investment fund. In no case can moneys be borrowed from retirement trust assets or from several specific segregated funds. The state investment fund had an estimated $2.0 billion available for temporary reallocations in February, 2009, including an estimated 20% of the local government investment pool ($800 million).

6. The state also can issue operating notes to support the general fund's cashflow. The state issued $800 million of such notes in 2008-09, which will be repaid by the end of the fiscal year. The Governor has recommended issuing operating notes in similar amounts in 2009-10 and in

2010-11. These notes allow the state to borrow externally at tax exempt rates to support the general fund's cashflow.

7. The state's worse-day cash balance usually occurs in December of each year, because the state pays 85% of shared revenue on the third Monday in November and 25% of K-12 equalization aid on the first Monday in December. Making two major aid payments within three weeks depletes the cash balance of the general fund. The state uses operating notes to borrow moneys to address this cashflow problem.

8. Another time when the state often has cashflow difficulties is the third Monday of June of each year, when the state pays 35% of K-12 equalization aid. Because operating notes must be repaid by the end of each fiscal year, note proceeds cannot be used to support the general fund's cashflow in June. As a result, interfund borrowing is the only approach that can be used to avoid payment delays. In June, 2008, the general fund's worse-day cash position was -$648 million. It is currently projected that the cash balance of the general fund will be -$1,049 million in June, 2009. This is close to the interfund borrowing limit of $1,138 million that applies in 2008-09. The proposed five percentage point increase in the interfund borrowing limit would provide an additional $685 million in 2009-10 and $711 million in 2010-11 of borrowing authority.

9. One potential issue with increasing the limit on temporary reallocations is whether sufficient moneys would be available in the state investment fund to support the higher amount. Depending on how much of the local government investment pool can be borrowed from, there may not be sufficient moneys available. However, by easing the statutory limit on temporary reallocations, the Secretary of Administration could at least borrow all moneys available that would not jeopardize the cashflow of the funds from which these moneys are drawn.

ALTERNATIVES

1. Approve the Governor's recommendation to increase the limit on temporary reallocations to the general fund from 8% of GPR appropriations in a given fiscal year to instead be 13% of GPR appropriations in that year. The aggregate limits on interfund cashflow borrowing would be $1,781 million in 2009-10 and $1,850 million in 2010-11.

2. Delete provision. The current law aggregate limit, equal to 8% of GPR appropriations, would be retained, and a maximum of $1,096 million in 2009-10 and $1,138 million in 2010-11 could be allocated to the general fund on a temporary basis.

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