



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #168

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

[LFB 2011-13 Budget Summary: Page 78, #6]

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#### **CURRENT LAW**

In order to support the general fund's cashflow, the Secretary of Administration is authorized to temporarily reallocate to the general fund at any one time in a fiscal year from available balances in the state investment fund up to 5% of total GPR appropriations, which would equal \$699 million in 2011-12 and \$736 million in 2012-13. 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 (\$420 million in 2011-12 and \$442 million in 2012-13). In total, 8% of GPR appropriations (\$1,119 million in 2011-12 and \$1,178 million in 2012-13) may be allocated to the general fund on a temporary basis. For cashflow purposes, the general fund includes cash balances associated with GPR, PR, and FED appropriations.

#### **GOVERNOR**

Increase the current 3% limit by three percentage points to 6%, for temporary reallocations to the general fund for a period not to exceed 30 days that cannot be made for consecutive periods. This change would increase this temporary reallocation authority by \$420 million in 2011-12 and \$442 million in 2012-13.

#### **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 \$7.9 billion in assets during March, 2011.

2. Temporary reallocations of moneys 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 5% of gross GPR appropriations for each fiscal year. The \$400 million limit was retained for all other funds. It was estimated that the 5% limit would allow the general fund to temporarily reallocate \$487 million in 1997-98.

3. Under 1999 Act 9, the authority for temporary reallocations of moneys to assist the general fund's cashflow was expanded to allow an amount equal to an additional 3% of GPR gross appropriations to be used for a period not to exceed 30 days, in addition to the 5% limit. This modification allowed an additional reallocation of \$315 million in 1999-00, in addition to the \$525 million allowed by the 5% limit in that year.

4. In 2009 Acts 11 and 28, the 5% limit was increased to be 7% in fiscal years 2008-09, 2009-10, and 2010-11. This modification allowed an additional \$282 million in temporary reallocation authority in 2010-11, in addition to the \$1,129 million under the 5% and 3% limits under prior law.

5. Under the current law limit, \$699 million in 2011-12 and \$736 million in 2012-13, equal to 5% of total GPR appropriations under the bill, would be available to support the general fund's cashflow. In addition, \$420 million in 2011-12 and \$442 million in 2012-13 would be 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, \$1,119 million in 2011-12 and \$1,178 million in 2012-13 could 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 \$1,539 million in 2011-12 and \$1,620 million in 2012-13. 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)

<u>Limit</u>	<u>Current Law</u>		<u>Limit</u>	<u>Governor</u>	
	<u>2011-12</u>	<u>2012-13</u>		<u>2011-12</u>	<u>2012-13</u>
5%	\$699	\$736	5%	\$699	\$736
3% (30-day limit)	<u>420</u>	<u>442</u>	6% (30-day limit)	<u>840</u>	<u>884</u>
Total	\$1,119	\$1,178	Total	\$1,539	\$1,620

6. 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 \$2.2 billion available for temporary reallocations in March, 2011, including an estimated 20% of the local government investment pool (\$640 million).

7. The state also can issue operating notes to support the general fund's cashflow. The state issued \$800 million of such notes in 2010-11, which will be repaid by the end of the fiscal year. The Governor has recommended issuing operating notes in similar amounts in 2011-12 and in 2012-13. These notes allow the state to borrow externally at tax exempt rates to support the general fund's cashflow.

8. 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 can also have cashflow problems in July and August associated with major aid and credit payments at the end of July. The state uses operating notes to borrow moneys to address these cashflow problems. Another time when the state often has cashflow difficulties is in 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 late in the fiscal year.

9. Staff from the administration indicate that the proposed increase to the temporary reallocation authority is intended to address potential general fund cashflow issues that could arise due to the proposed creation of the University of Wisconsin-Madison authority. Under that proposal, PR funding at UW-Madison (primarily tuition and auxiliaries revenues) and FED funding would no longer be deposited with the state, and would not be included as part of the general fund for cashflow purposes. As a result, the daily cash position of the general fund could be impaired. To address this issue, while these PR and FED moneys would no longer be deposited in the state treasury, the bill would require the authority to use the local government investment pool, so that these balances could be available for temporary reallocations. In this case, easing the statutory limit on temporary reallocations would allow the Secretary of Administration to borrow these PR and FED moneys that are currently part of the general fund for cashflow purposes.

10. One concern about the proposed increase in temporary reallocation authority is that the limit that would be increased is subject to the current law 30-day limit. If the proposed shift of UW-Madison PR and FED moneys out of the state treasury would impair the general fund's cashflow, it is unclear that additional borrowing subject to a 30-day limit would be sufficient to address the problem. In addition, recent cashflow projections by the Department of Administration show a potential drop in the worst-day cash balance attributable to the UW-Madison modifications that could warrant a 4% increase in the limit. To address these concerns, the Committee could, instead, provide a 4% increase to the limit that is not subject to the 30-day limit, and specify that this increase would only apply to the 2011-13 biennium. Under this approach, the Legislature would have actual cashflow data from the proposed modification relating to PR and FED moneys at the UW-Madison before making a permanent change to the limits governing temporary reallocations to

support the general fund's cashflow.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to increase the current 3% limit that applies to temporary reallocations to the general fund for a period not to exceed 30 days that cannot be made for consecutive periods, by three percentage points to 6%. This alternative would make a permanent increase to the limit governing temporary reallocations that are of limited duration.

2. Modify the Governor's recommendation to delete the proposed increase to the current 3% on limit on reallocation for 30-days or less and, instead, increase the separate, more general 5% limit that applies to temporary reallocations by four percentage points to 9% during the 2011-13 biennium. This alternative would authorize a two-year increase in the limit governing more general temporary reallocations, similar to the two-year increase authorized for the 2009-11 biennium in 2009 Act 2.

3. Delete provision.

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