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Joint Committee on Finance

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

[LFB 2015-17 Budget Summary: Page 75, #4]

CURRENT LAW

In order to support the general fund's cashflow, the Secretary of Administration is authorized to temporarily reallocate moneys to the general fund from available balances in the state investment fund. This statutory authorization allows the general fund to borrow short-term from other state funds for cashflow purposes.

In the 2013-15 biennium, the Secretary can borrow up to 9% of total GPR appropriations for cashflow purposes. In addition, the Secretary can borrow 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. In total, 12% of GPR appropriations (\$1,802 million in 2013-14 and \$1,906 million in 2014-15) may be allocated to the general fund on a temporary basis. For cashflow purposes, the general fund includes cash balances associated with GPR, FED, and most PR appropriations. The Secretary is required to reallocate available moneys from the budget stabilization fund before reallocating moneys from any other fund, and these percentage limits do not apply to reallocations from the budget stabilization fund to the general fund. The budget stabilization fund currently has a cash balance of \$279.8 million.

Beginning in 2015-16, the 9% limit will revert to 5%.

GOVERNOR

Increase the 5% limit, which applies under current law beginning in 2013-14, by four percentage points to 9% for temporary reallocations to the general fund. This increase would apply in 2015-16 and annually thereafter, and would increase this authority by \$635 million in 2015-16 and \$678 million in 2016-17.

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 \$7.56 billion in assets during February, 2015, and earned an annualized rate of return of 0.109% in February.

2. Temporary reallocations of moneys from one fund to another are allowed under current law, if a fund has cashflow difficulties 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 total GPR appropriations for each fiscal year. The \$400 million limit was retained for all other funds. It was estimated that the 5% limit allowed 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 appropriations to be used for a period not to exceed 30 days, in addition to the 5% limit. In 2009 Acts 11 and 28, the 5% limit was increased to 7% in fiscal years 2008-09, 2009-10, and 2010-11. In 2011 Act 32, the 5% limit was increased to 9% for the 2011-13 biennium, and in 2013 Act 20, the 5% limit was increased to 9% for the 2013-15 biennium.

4. Under the Governor's proposal, the aggregate limits on interfund cashflow borrowing would be \$1,905 million in 2015-16 and \$2,035 million in 2016-17. 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)

Limit	Current Law		Limit	Governor	
	2015-16	2016-17		2015-16	2016-17
5%	\$794	\$848	9%	\$1,429	\$1,527
3% (30-day limit)	<u>476</u>	<u>509</u>	3% (30-day limit)	<u>476</u>	<u>509</u>
Total	\$1,270	\$1,357	Total	\$1,905	\$2,035

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, nor can temporary reallocations be made if the cashflow of that fund would be jeopardized. The state investment fund had an estimated \$2.0 billion available for temporary reallocations in February, 2015, if 20% of the local government investment pool is included.

6. The state also can issue operating notes to support the general fund's cashflow. The state last issued operating notes in 2010-11, when \$800 million were issued and repaid by the end of the fiscal year. Two major factors are considered by the Secretary of Administration in deciding

whether to request the issuance of operating notes, which are subject to approval by the Joint Committee on Finance under a passive review process. First, will the worst-day shortfall reach a level where it could exceed the available amount of temporary reallocation authority. If so, it may be desirable to issue operating notes to avoid the possibility of payment delays. Second, what are the interest costs of issuing operating notes compared to the SIF earnings rate. Under current market conditions, the net interest costs of an operating note would likely be slightly higher than the current 0.108% SIF earnings rate. If interest costs are higher using an operating note, then temporary reallocation of SIF balances may be preferred.

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 can also have cashflow problems associated with major aid and credit payments at the end of July. Since operating note proceeds are received in July and are gradually paid back between February and May, they can be used to address cashflow problems during these time periods. However, the state also can have cashflow difficulties 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 state's fiscal year.

8. The proposed UW System Authority would affect the general fund's cashflow. Moneys that currently are shown as part of the general fund would either be retained by the Authority or deposited in a separate account in the local government investment pool (LGIP). Although the state could still use UW System Authority balances in the LGIP for interfund borrowing, cash balances shown in the general fund would be lower than under current law. As a result, both because of the UW System Authority proposal as well as the recurring cashflow needs of the general fund over the last three biennia, the Committee may wish to consider approving the Governor's recommendation to make a permanent increase in the limit governing temporary reallocations.

ALTERNATIVES

1. Approve the Governor's recommendation to increase the current 5% limit that applies to temporary reallocations to the general fund by four percentage points, to be 9%. This alternative would make a permanent increase to the limit governing temporary reallocations.

2. Modify the Governor's recommendation to limit the proposed increase to 9% so that it only applies to the 2015-17 biennium. This alternative would authorize a two-year increase in the limit governing more general temporary reallocations, similar to the two-year increases authorized for the 2011-13 biennium in 2011 Act 32 and for the 2013-15 biennium in 2013 Act 20.

3. Delete provision.

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