



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

---

April 30, 2013

Joint Committee on Finance

Paper #158

### Operating Note Interest Costs (Budget Management and Compensation Reserves)

---

#### CURRENT LAW

There are two sum sufficient appropriations under Miscellaneous Appropriations relating to operating notes. The first is an appropriation for interest costs with base level funding of \$5,000,000 GPR annually, and the second is for issuance costs with base level funding of \$150,000 GPR annually.

#### GOVERNOR

Maintain base level funding in the sum sufficient appropriations relating to operating notes in each year of the 2013-15 biennium.

#### DISCUSSION POINTS

1. To avoid payment delays, the statutes authorize the Secretary of the Department of Administration (DOA) to temporarily reallocate available cash balances of certain funds that participate in the state investment fund. Under this provision, the DOA Secretary can use temporary reallocations to support general fund or segregated fund cashflow, if there is a mismatch between cash deposits and expenditures during the fiscal year. This type of internal borrowing occurs frequently, and the DOA Secretary files various required reports relating to the use of this authority.
2. Current law also authorizes the DOA Secretary to request the issuance of operating notes to support the general fund's cashflow. This type of external borrowing is subject to Committee approval under a passive review process. The state did not issue any operating notes in 2012-13, but did issue \$800 million of notes in July of 2011, which were repaid in June of 2012.

3. One factor that affects any decision relating to the issuance of operating notes is a comparison of the interest rate on the notes compared to the interest rate on the state investment fund. Under current market rates, it appears that it would be less costly for the general fund to use temporary reallocations of available balances in the state investment fund, than to borrow externally using operating notes. In March of 2013, the state investment fund had an annualized interest rate of 0.156%. In the current market, it is estimated that operating notes would have a slightly higher interest cost (0.2%), and would incur issuance costs as well.

4. Staff from DOA indicate that current projections show sufficient liquidity, so that no request for the issuance of operating notes is planned for 2013-14. However, because balances in the general fund under AB 40 are projected to be lower in 2014-15 than in 2013-14, there is a possibility that operating notes will be needed to support the general fund's cashflow in 2014-15.

5. At this point, AB 40 has set aside \$5,150,000 GPR annually in two appropriations in case operating notes would be issued. The Committee could consider deleting this funding from 2013-14, since no operating note issuance is anticipated in 2013-14. It may be desirable to leave the 2014-15 funding amount unchanged, since there is greater uncertainty in both cashflow and interest rate projections in the second year.

6. Because these appropriations are sum sufficient, if unexpected cashflow or interest rate developments would occur, the reestimate identified in Alternative 1 would not preclude the issuance of operating notes in 2013-14. If notes would be issued, the general fund condition statement would need to be adjusted to reflect the interest costs, issuance costs, and increased interest earnings associated with such a transaction.

## ALTERNATIVES

1. Delete \$5,150,000 from 2013-14 to reflect the projection that no operating notes will be issued in 2013-14.

<b>ALT 1</b>	<b>Change to Bill Funding</b>
GPR	-\$5,150,000

2. Take no action.

Prepared by: Dave Loppnow