



## 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 #157

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

[LFB 2013-15 Budget Summary: Page 74, #5]

---

#### **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 2011-13 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 (\$1,663 million in 2011-12 and \$1,723 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, 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 \$125.6 million.

Beginning in 2013-14, 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 2013-14 and annually thereafter, and would increase this authority by \$591 million in 2013-14 and \$610 million in 2014-15.

## 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 \$10.1 billion in assets during March, 2013, and earned an annualized rate of return of 0.156% in March.

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.

4. Under the Governor's proposal, the aggregate limits on interfund cashflow borrowing would be \$1,773 million in 2013-14 and \$1,831 million in 2014-15. 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>2013-14</u>	<u>2014-15</u>		<u>2013-14</u>	<u>2014-15</u>
5%	\$739	\$763	9%	\$1,330	\$1,373
3% (30-day limit)	<u>443</u>	<u>458</u>	3% (30-day limit)	<u>443</u>	<u>458</u>
Total	\$1,182	\$1,221	Total	\$1,773	\$1,831

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 \$2.4 billion available for temporary reallocations in March, 2013, 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. Staff from DOA indicate that under current market conditions, the net interest costs of an operating note would likely be 0.2%, which would be slightly higher than the current 0.156% 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.

## **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 2013-15 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 2011-13 biennium in 2011 Act 32.

3. Delete provision.

Prepared by: Dave Loppnow