

LEGISLATIVE ANALYST'S OFFICE

## The "Trigger" Mechanism

*As part of the 1994-95 budget package, the state put into place a so-called trigger mechanism. This mechanism was viewed as being necessary to ensure repayment of money borrowed from investors to finance the budget plan. There are separate trigger mechanisms for 1994-95 and 1995-96. Figure 1 (following pages) summarizes the trigger process for both years. The following are often-asked questions about the trigger.*

### What Drives the Trigger?


The trigger mechanism is driven by what happens to the state's year-end *cash* position (as measured by the accounting term "unused borrowable resources"). If the state's cash position *worsens relative to what it was estimated to be when projected in July 1994*, then the trigger is "pulled". In the case of the 1994-95 trigger, this decision is to be made by the Controller on November 15 of this year. The Legislative Analyst is to provide an updated fiscal analysis for use by the Controller in making that decision.

### Isn't There Some Type of "Cushion" Built In?

Yes. For 1994-95, the state's year-end cash position must worsen *by more than \$430 million* before the trigger is pulled.


For 1995-96, the state's year-end cash position cannot be negative. (In July 1994, it was estimated that the state would have unused borrowable resources on June 30, 1996 of \$1.3 billion.)

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# TRIGGER Update

Figure 1

## The Trigger Process

### 1994-95 Actions

#### Trigger Process

#### Borrowing Plan

#### July

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>◇ 1994-95 budget enacted.</li> <li>◇ Budget estimate of 1994-95 year-end cash position established by the State Controller for the revenue anticipation warrants (RAWs) sale.</li> </ul> | <ul style="list-style-type: none"> <li>◆ State sold \$4 billion of RAWs guaranteed by bank syndicate. Repayment due April 1996.</li> <li>◆ State sold \$3 billion of revenue anticipation notes (RANs). Repayment due June 1995.</li> </ul> |
|---|---|

#### November 15

- ◇ **1994-95 Trigger:** State Controller reestimates year-end cash position. Legislative Analyst provides input and reviews Controller's estimate. A deterioration of more than \$430 million in the cash position over July estimate triggers subsequent actions.

#### January 10

- ◇ Governor presents 1995-96 budget and must propose legislation for spending cuts/revenue increases to eliminate any 1994-95 cash deterioration of more than \$430 million identified by the Controller in November.

#### February 15

- ◇ Deadline to enact legislation to eliminate problem identified by the Controller.

#### February 20

- ◇ **1994-95 Automatic Spending Cuts:** If legislation not enacted, Director of Finance makes automatic spending cuts to eliminate problem.

#### May—June

- ◇ Governor updates 1995-96 budget proposal and cash projections. Controller reviews budget projections and identifies any 1995-96 cash deficit.
- ◇ Governor must propose legislation/budget changes to eliminate any 1995-96 cash deficit.

#### June

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>◇ Enact 1995-96 budget. Budget must not result in any year-end cash deficit.</li> </ul> | <ul style="list-style-type: none"> <li>◆ Repay 1994-95 RANs.</li> </ul> |
|--|---|

# TRIGGER UPDATE

Figure 1 CONTINUED

## The Trigger Process

### 1995-96 Actions

Trigger Process	Borrowing Plan
<b>August</b>	◆ Sell \$3 billion of RANs due June 1996.
<b>October 15</b>	◆ <b>1995-96 Trigger:</b> Controller reestimates year-end cash position with input and review by Legislative Analyst. A 1995-96 cash deficit triggers subsequent actions.
<b>October 31</b>	◆ Governor must propose legislation for spending cuts/revenue increases to eliminate any 1995-96 cash deficit identified by the Controller.
<b>December 1</b>	◆ Deadline to enact legislation to eliminate any 1995-96 cash deficit.
<b>December 5</b>	◆ <b>1995-96 Automatic Spending Cuts:</b> If legislation not enacted, Director of Finance makes automatic spending cuts to eliminate 1995-96 cash deficit.
<b>April</b>	◆ Repay RAWs.
<b>June</b>	◆ Repay 1995-96 RANs.



# MORE TRIGGER

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## What Happens After the Trigger Is Pulled?

The Governor, in presenting the 1995-96 budget plan in January 1995, must propose ways to eliminate any cash deterioration of more than \$430 million identified by the Controller. The Legislature would have until February 15 to enact that legislation—or alternative measures—that address the shortfall.

## What Happens if Legislation Is Not Enacted?

In this event, the Director of Finance is required to make automatic spending cuts to address the cash shortfall. These cuts would apply to all General Fund programs, *except* those required by the State Constitution (such as K-14 school spending and debt service) or federal law. (Note: We refer to “pulling the trigger” as the Controller’s determination of a cash deterioration, as opposed to the actual implementation of these automatic spending cuts.)

## Does It Look Like the Trigger Will Be Pulled in 1994-95?

It’s a close call at this time. The biggest uncertainty on the expenditure side concerns the budget assumption that the state will receive \$762 million in new immigration-related federal funds. With regard to revenues, there is both up- and down-side risk, primarily depending on how the economy is performing relative to what was assumed in the budget.

## How Does the Trigger Work for 1995-96?

While it’s very similar, there are two important differences. First, the Controller pulls the trigger if the estimated June 30, 1996 cash balance is negative. Second, the trigger process is accelerated, so that any required automatic spending cuts would start in early December (rather than February).

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### Glossary of Trigger-Related Terms

<b>Borrowable resources</b>	Funds available for the General Fund to borrow temporarily in order to manage its cash needs. Borrowable resources include funds from both “internal” and “external” sources.
<b>Internal borrowable resources</b>	Amounts that the General Fund can borrow from special funds and other governmental sources that have temporarily idle balances.
<b>External borrowable resources</b>	Amounts from private investors that the General Fund can borrow, such as proceeds from sales of revenue anticipation notes (RANs) and revenue anticipation warrants (RAWs).
<b>Unused borrowable resources</b>	The difference between borrowable resources and the amount of these resources that have already been borrowed by the General Fund. That is, the amount of borrowable resources still available.
<b>Cash position</b>	The General Fund’s cash balance (if any) plus the amount of unused borrowable resources. If the General Fund’s cash needs are greater than available resources, there is a cash deficit.
<b>Trigger</b>	Mechanism established in the 1994-95 budget package to ensure timely repayment of money borrowed from investors that was needed to finance the budget plan.

