

Cash Management Issues: Agenda Pages 52, 65, 406, 427, and 438 Proposed LAO Compromise (Revised)

June 17, 2008
Page 1

- Reducing the size of potential intra-year borrowing (revenue anticipation notes, or RANs) will lower state borrowing costs and improve the ability of the state to market this borrowing. As the administration proposes, one way to achieve this goal is by shifting expenses past March (the biggest cash shortfall month) to April or later.
- The administration proposes to shift \$3.6 billion in July through March payments—primarily from K-14 schools—to April, May, and June, in order to reduce the 2008-09 RAN size by a comparable amount. (This would reduce 2008-09 borrowing costs by about \$90 million.) Shifting local governments and schools payments to later in the year, however, would drive up their own cash management costs—by reducing interest earnings from cash-on-hand or causing increased borrowing.
- We believe state disbursements should roughly match the recipients' program needs. For instance, funds used for payroll expenses are needed roughly evenly throughout the year so monthly disbursements make sense. Adopting the administration's proposed changes to University of California (UC), Citizens' Option for Public Safety (COPS), and the Williamson Act generally would spread payments more evenly throughout the year to meet program needs.
 - **Action:** Adopt administration's disbursement changes to UC, COPS, and Williamson Act on a permanent basis through trailer bill language.
- Regarding Proposition 98 disbursements, the administration proposal would affect K-12 school districts, community college districts, and child care providers. For K-12 and community college districts, some disbursements are not closely aligned with districts' programmatic needs. In particular, principal apportionment disbursements, as well as many categorical program disbursements, are somewhat front-loaded in the fiscal year. Although this means some opportunities exist for evening out disbursements, we have concerns with deferring additional payments in the first half of the

**Cash Management Issues:
Agenda Pages 52, 65, 406, 427, and 438
Proposed LAO Compromise (Revised) (Continued)**

June 17, 2008
Page 2

fiscal year—prior to districts receiving their first property tax allocations. For child care disbursements, the California Department of Education states that it pays providers throughout the year as service is rendered, implying that payments already are well aligned with programmatic needs (though actual disbursements reflected by the Controller show notable monthly fluctuations, raising concern that some misalignment might exist).

- **Action:** Modify the administration’s disbursement changes to Proposition 98 by shifting the same amount of total funding (\$3 billion) but shifting funds only from K-12 schools and community colleges and only from January through March to April or later. We recommend this be done on a one-time basis only in 2008-09, through Control Section 35.80.
- **Action:** Adopt Supplemental Report Language to require a working group to identify ways to improve Proposition 98 disbursement processes on a permanent basis beginning in 2009-10 and report back by December 1, 2008:

Education-Related Cash Flow Analysis. The Legislative Analyst’s Office shall convene a working group to examine the disbursement of Proposition 98 monies, including the disbursement of child care, K-12 education, and California Community College funding. The group shall develop recommendations to ensure these disbursements are closely aligned with programmatic needs beginning in 2009-10 and sensitive to the timing of other major state cash flows to the extent feasible. The group shall include but not be limited to representatives of the Department of Finance, the California Department of Education, and the California Community Colleges Chancellor’s Office. The group shall submit its recommendations to the Joint Legislative Budget Committee and the administration no later than December 1, 2008.



Cash Management Issues: Agenda Pages 52, 65, 406, 427, and 438 Proposed LAO Compromise (Revised) (Continued)

June 17, 2008
Page 3

- The administration proposes three new positions to improve the state's cash management—one each for the Controller, Treasurer, and Department of Finance. The state's cash flow concerns likely will continue beyond 2008-09 and, therefore, additional expertise in this area should be advantageous.
 - **Action:** Approve the proposed three positions (Senate version on pages 52, 65, and 406).

- The scoring of the compromise is similar to the May Revision, with slightly updated amounts.
 - **Action:** Score \$60.6 million in net General Fund savings from reduced external borrowing (Assembly version minus \$60.579 million on page 427).