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Comments on the Administration's Cash Management Proposals

LEGISLATIVE ANALYST'S OFFICE

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Chair





Overview of Administration's Cash Management Proposals

- Revenue Forecast.** Administration's cash projections depend on its current revenue forecast. Any further deterioration of revenues would also worsen the state's projected cash situation.
- Budget Proposals.** Administration's cash projections assume adoption of its budget proposals. Changes to the administration's budget plan could better or worsen the state's cash situation. The Legislature, therefore, will need to monitor the state's cash situation as it makes budget decisions.
- Timing of Budget.** The cash problem is especially acute if the budget is not enacted on time. This is because the state could not issue its 2008-09 revenue anticipate notes (RANs). A late budget, however, would reduce the amount of spending by hundreds of millions, if not more than \$1 billion, in each month. This would help the cash situation in those months.



Administration Can Take Some Actions on Its Own

- Administration can issue \$3.3 billion in additional deficit-financing bonds using existing authority. The issuance is expected in February, and this should provide an adequate cash cushion through June.

- The administration also plans to authorize over \$1 billion in cash-specific actions to improve the state's cash position in July and August.

Key Cash Proposals That Administration Can Implement on Its Own	
<i>(In Millions)</i>	
Proposal	Benefit
Medi-Cal	
• Delay managed care and dental payments by one month.	\$232
• Delay first quarter payment for county administration by one to two months.	164
Developmental Services	
• Delay regional center advances.	\$400
Mental Health	
• Delay managed care advance by two months.	\$200
Early and Periodic Screening, Diagnosis, and Treatment	
• Delay quarterly advance to counties by two months.	\$92
Total	\$1,088



Proposals for Legislative Action Would Provide Greater Cash Cushion

- Administration is proposing legislation that would delay more than \$3.6 billion in payments, primarily to schools and local governments. The administration proposes to delay the \$1.3 billion in payments to K-12 schools and community colleges on a permanent basis.

Key Cash Proposals Requiring Legislative Action	
<i>(In Millions)</i>	
Proposal	Benefit
Proposition 98	
• Delay deferred payments for K-12 schools and community colleges by two months.	\$1,300
Social Services	
• Delay program disbursements by two months.	\$814
CalSTRS	
• Pay July inflation protection program costs in two installments—November and April.	\$584
Transportation	
• Delay gas tax disbursements to local governments by one to five months.	\$500
Medi-Cal	
• Delay checks for certain providers of medical services from August until September.	\$454
Total	\$3,652



Net Effect of Cash Proposals

- The effect of these cash-specific proposals would bring the state's cash cushion in July and August to more than \$5 billion. The adoption of an additional \$817 million in current-year budget solutions proposed by the administration would bring the cushion to about \$6 billion in each month.

Cash Cushion		
<i>(In Millions)</i>		
	July 2008	August 2008
Cushion, No Corrective Action	-\$1,125	-\$2,794
Issue deficit-financing bonds and other administrative solutions	+3,605	+4,401
Cushion, With Administrative Solutions	\$2,480	\$1,607
Adoption of cash solution trailer bills	+2,691	+3,652
Cushion, All Cash Solutions	\$5,171	\$5,259
Current-year budget solutions	+817	+817
Cushion, All Governor's Budget Proposals	\$5,988	\$6,076



Key Considerations



Programmatic Impact Unclear

- Any strain caused by the delayed payments would be primarily on school districts and counties. Could cause extra borrowing or other effects.
- Likely to be great variation, depending on entities' size and financial health.



Considering the Use of Triggers

- Administration's proposals would delay payments regardless of how much cash the state has on hand.
- Legislature should consider authorizing the delays contingent upon the state needing access to the cash.



Prioritizing the Delays

- Through the use of triggers, the Legislature could also specify the order of delayed payments. It could base this prioritization on factors such as:
 - Which payment delays will be the most disruptive?
 - Should small entities be exempted?
- Based on our initial review, we are most concerned with the delayed payments to school districts—given the many small districts that would be affected. At the very least, we would recommend not making this delay on an ongoing basis.