

June 11, 2009

Administration's Cash Management Proposals

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

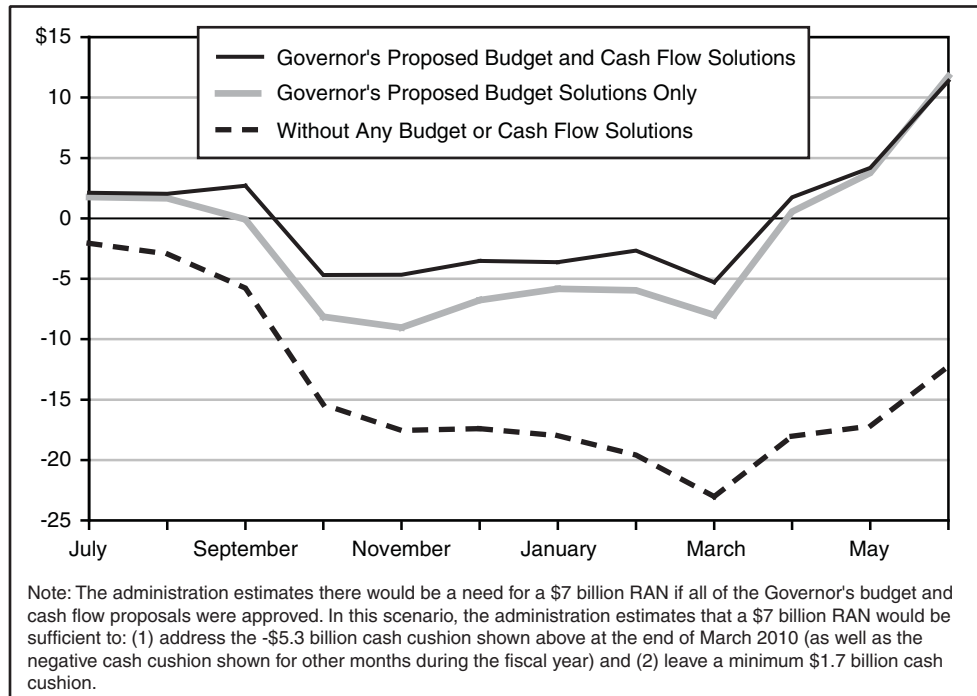
Presented to:
Budget Conference Committee



Updated Cash Cushion Forecast Before Considering Any RAN or RAW Borrowing

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(In Billions)



Major Administration Cash Management Proposals

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Schools. Intra-year delays in school payments are by far the most significant payment deferrals proposed by the Governor.

- **Delay October and November Revenue Limit Payments.** \$1 billion of cash flow savings in each of these two months, to be paid to districts two months later.
- **Implement 5-5-9 Payment Schedule With Delays Similar to 2009-10 Budget Act.** Achieves \$2.4 billion of cash flow savings in September and \$918 million of savings in February. These funds instead would be paid to districts throughout the rest of the year.
- **Quality Education Investment Act Funding Delay.** \$450 million of cash flow savings in July, to be paid to districts three months later.
- **Delay Previously Deferred Payments to Later in July.** Delay scheduled payment of \$2.8 billion deferred from 2008-09 from early in July 2009 to later in July 2009.



Accelerated Start of Additional Tax Withholding. The administration proposes to start the accelerated 10 percent extra personal income tax withholding several months earlier than in its budget proposal for \$936 million of cash flow savings over a several-month period from October 2009 to March 2010. (This is in addition to the increased 2009-10 revenues scored as a budget solution related to the withholding proposal.)

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- Delayed Payments to Counties and Cities.*** The Governor proposes to delay \$300 million of Proposition 63 mental health payments to counties from July 2009 to June 2010 and \$288 million of Proposition 42 payments to municipalities for local streets and roads from the first seven months of the budget year to May 2010.
- Delayed Payments to Universities.*** The administration proposes to delay \$290 million of payments to CSU and \$250 million of UC from July 2009 to October 2009.
- Making the Lottery Fund Borrowable for Cash Flow Purposes.*** Due to the failure of Proposition 1C, the administration proposes to amend state law to make the Lottery Fund borrowable for cash flow purposes. This would add several hundred million dollars to the state's cash flow cushion.

Budget Actions Will Determine the Magnitude of Necessary Payment Delays

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- ☑ ***Cash Flow Package Needs to Be Finalized in Conjunction With Budget Package.*** The Legislature needs to request periodic cash flow updates from the administration as it determines the budget options it wishes to adopt. These budget solutions will determine the magnitude of payment delays needed in order to reduce the state's 2009-10 cash flow borrowing to a manageable level. We recommend that the total amount of cash flow borrowing be kept below \$10 billion.

- ☑ ***Budget Options Fall Into Three Cash Flow Categories.*** Each budget option—both revenues and expenditures—the Legislature considers can be classified as one of the following:
 - ***Category 1: Immediate Cash Flow Benefit.*** Immediate cash flow benefit to the state beginning in July 2009 or earlier. (Examples: the proposed Proposition 98 reductions or the 5 percent salary reduction for state employees.)
 - ***Category 2: Partial-Year Cash Flow Benefit.*** Cash flow benefit beginning in the middle of the fiscal year. (Example: the proposed elimination of CalWORKs, which results in estimated cash flow savings beginning in September.)
 - ***Category 3: Minimal or No Cash Flow Benefit.*** Cash flow relief beginning late in the fiscal year, assuming the proposal can be implemented at all during 2009-10. (Example: the proposed sale of parts of the State Compensation Insurance Fund [SCIF], which the administration's cash flow model assumes would occur in June 2010.)

- ☑ ***More Payment Delays May Be Needed for Certain Budget Options.*** If the Legislature rejects administration budget proposals that fall into Categories 1 and 2 *and* replaces these with budget options that fall in Category 3, *more* payment delays may be needed than proposed by the administration. If the Legislature rejects the SCIF proposal and replaces it with options in Categories 1 and 2, *less* payment delays may be needed than proposed by the administration.

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- Appendix Lists Each Cash-Related Proposal With LAO Comments, if Applicable.** Decisions on the final package of cash management proposals, as well as the cost to budget for RAN/RAW issuance during 2009-10, probably needs to wait for more of the Legislature’s budget decisions.
- Early Budget Action May Reduce Need for Some School Payment Delays.** The Governor proposes significant school payment delays in the early months of 2009-10 that would strain school district finances. If the Legislature acts to balance the budget by late June or early July at the latest, the Treasurer or Controller could sell RANs or RAWs to investors as early as July—three months earlier than assumed by the administration in its forecast. This may reduce the need for school payment delays early in 2009-10.
- Consider Additional Delays in UC and Tax Refund Payments.** If additional payment delays are needed, we recommend consideration of additional UC payment delays and delays of up to 45 days in payments of personal income and corporate tax refunds. Depending on the budget solutions chosen by the Legislature, other payment deferrals also may be needed.
- Other Provisions.** As we discussed during the K-12 education section of the agenda, we recommend provisions to exempt the most financially distressed school districts from payment delays. We also recommend that the Pooled Money Investment Board be given the ability to “trigger off” some or all of any scheduled school and tax refund payment delays if the state’s cash condition allows during the course of the budget year.

Appendix: Cash Management Issues Before the Conference Committee

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2009-10 General Fund Interest Costs—Budget Act Item 9620

Agenda Page	Issue	May Revision	LAO Recommendations and Comments
General Government, p. 20	2009-10 costs for internal and external cash-flow borrowing.	-\$210 million	Hold open pending decisions on full cash management package. May Revision proposal for \$540 million of funding for this item reflects its estimates of costs of a \$7 billion RAN, as well as costs of internal borrowing from the state's special funds.

Administration's Proposals for Payment Delays and Increased Borrowable Funds

Agenda Page	Issue	May Revision	LAO Recommendations and Comments
Education, p. 2 (Part of Issue 171)	K-12 intrayear payment delays.	Various deferrals listed earlier in this handout.	Hold open pending budget actions, which will determine total need for payment delays. Because the administration's cash flow model assumes issuance of a RAN in October 2009, earlier legislative action to balance the budget may allow some of these deferrals to be reduced.
Education, p. 2 (Part of Issue 171)	TBL for new 5-5-9 payment schedule for K-12 with payment delays in 2009-10.	Discussed in LAO Handout on K-14 Payment Deferrals.	Recommend approval.
Education, p. 33	TBL for UC intrayear payment delays.	Delay \$250 million from July to October.	Recommend approval. Consider increasing amount in light of UC's significant cash resources and high credit rating.
Education, p. 37	TBL for CSU intrayear payment delays.	Delay \$290 million from July to October.	Recommend approval.
N/A	Delay Proposition 63 mental health payments to counties.	Delay \$300 million from July to June.	Recommend approval.
N/A	TBL to delay Proposition 42 payments for local streets and roads.	Delays \$144 million in November and \$144 million in January, to be paid in May.	Recommend rejecting administration's proposal if the Legislature decides instead to partially suspend Proposition 42 as suggested by the LAO. This LAO option also would provide cash flow benefit in 2009-10.
General Government, p. 22 (Issue TBL)	TBL to make the Lottery Fund borrowable for cash flow purposes.	Adds several hundred million dollars to cash cushion.	Recommend approval.

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Administration's Other Proposed Cash Management Actions

Agenda Page	Issue	May Revision	LAO Recommendations and Comments
General Government, p. 22 (Issue 001)	Difference between the houses on budget bill language (BBL) concerning role of Department of Finance (DOF) in approving Controller's payment delay plans.	N/A	Recommend Senate version. An alternate version proposed by the administration could give DOF the power to reject emergency payment delay plans proposed by the Controller. This would differ from the explanation of the Controller's authority the state has long provided to investors.
General Government, p. 21	TBL regarding eligible state bond and note investments for various state accounts.	TBL	Recommend approval.
N/A	TBL regarding Prompt Payment Act, including broadening definition of "payment" to include registered warrants (also known as IOUs).	TBL	Recommend approval.

Other LAO Options

Agenda Page	Issue	May Revision	LAO Recommendations and Comments
N/A	TBL to authorize Pooled Money Investment Board to "trigger off" certain payment delays if it determines that the cash situation allows (2009-10 only).	N/A	Recommend approval of placeholder TBL.
N/A	BBL to authorize process to exempt most financially distressed school districts from intrayear payment delays.	N/A	Recommend approval of placeholder BBL or TBL. Administration has proposed TBL that would require technical and perhaps other amendments.
N/A	TBL to delay payment of personal income and corporate tax refunds by 30 to 45 days (2009-10 only).	N/A	Hold open pending budget actions. Recommend that Legislature consider this action to add hundreds of millions of dollars to the cash cushion as an alternative to additional K-12 intrayear payment delays.



Appendix: Cash Management Issues Before the Conference Committee

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Policy Bills Recommended by Controller and Treasurer

Agenda Page	Issue	May Revision	LAO Recommendations and Comments
N/A	SB 116 (Calderon)—to clarify provisions of state law principally concerning RAWs.	N/A	Now awaiting policy committee action in the Assembly. Some provisions overlap with those of administration's proposed TBL regarding investments for various state accounts.