

# The Interrelationship Between Debt, Cash, and Budget in the State's Cash Management Practices

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# Why Are We Here Today?

- Further our mutual understanding of:
  - Cash position of the state
  - Existing cash management practices
  - Relationship of budget, cash management, debt management, and GAAP
  - How we got here
  - Improving the state's cash position for the future

# Accounting vs. Cash vs. Budget

- Accounting is the set of man-made rules and conventions to record and report the revenues and expenditures. It is the domain of the State Comptroller.
- Cash is the practical reality of the daily flow of both receipts and disbursements. It is the domain of the State Treasurer.
- The Budget is the financial plan/forecast for the allocation of the state's resources to meet certain policy objectives. It is the domain of the Governor and Legislature. The budget is the primary determinant of the state's cash flow and cash balances.

# Connecticut's Available Cash

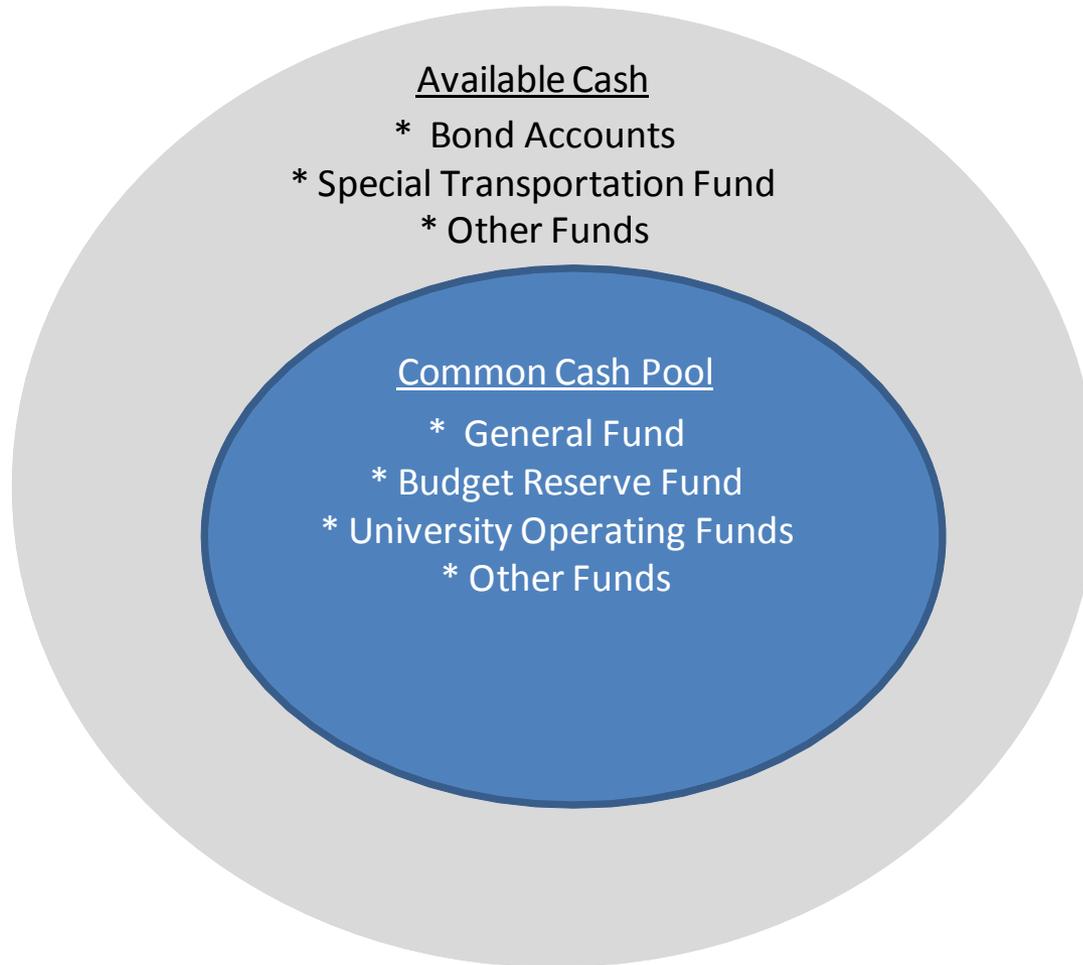
## Primary Sources

- Common Cash Pool = State's Operating Cash
  - Includes: General Fund, Budget Reserve Fund, University Operating Funds, Other Funds

## Supplemental Sources

- Available Cash = Common Cash Pool, plus:
  - General Obligation Bond Short Term Investment Fund (STIF) accounts
  - Special Tax Obligation Bond STIF accounts
  - Clean Water Bond STIF accounts
  - Special Transportation Fund STIF account
  - Miscellaneous STIF accounts

# Connecticut's Available Cash



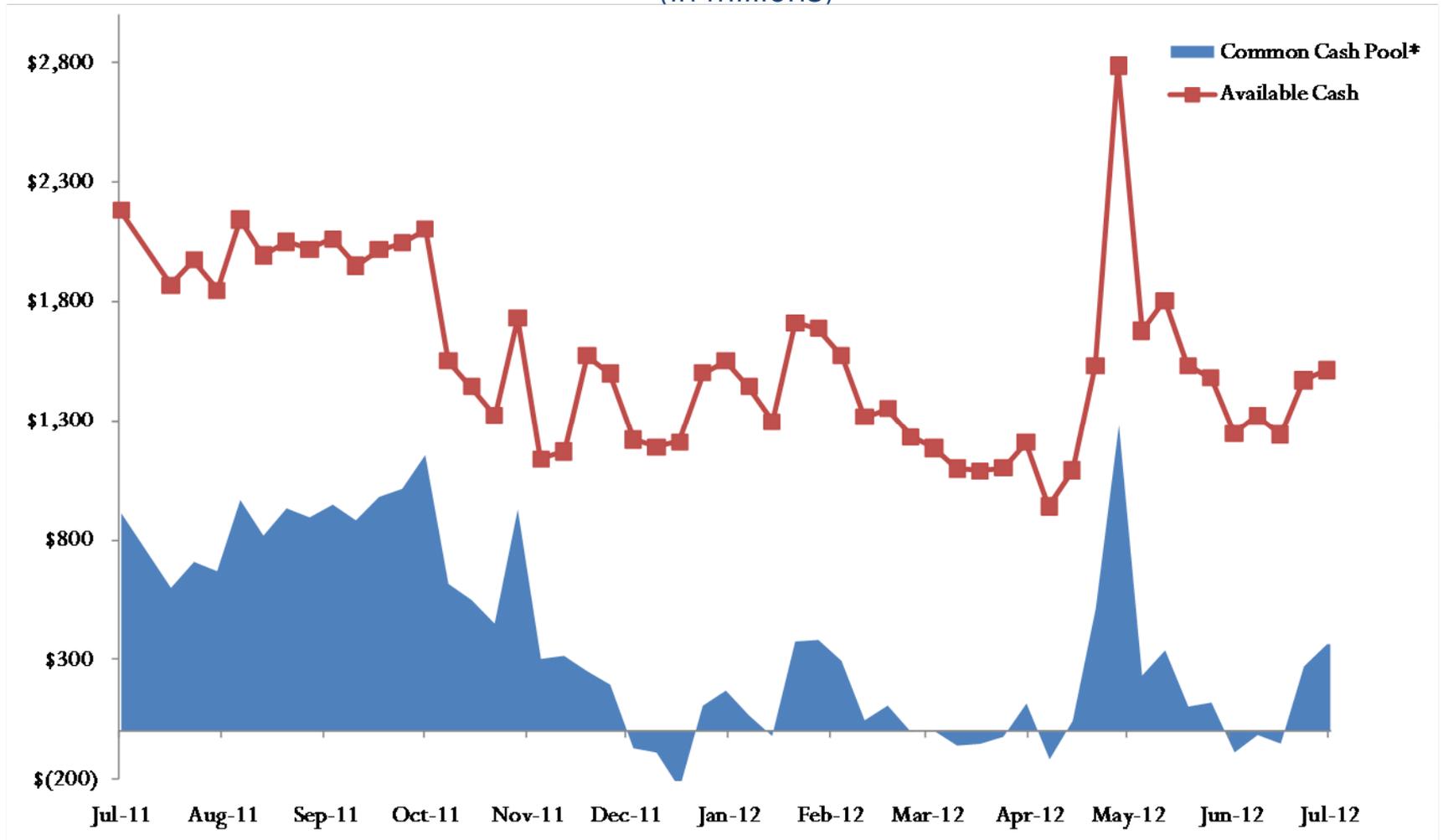
# Connecticut's Available Cash

As of June 30, 2012  
(in millions)

		<u>% of Total</u>
1. Common Cash Pool	\$ 364.5	24.1%
2. General Obligation Bond STIF Accounts	618.6	40.9%
3. Special Tax Obligation Bond STIF Accounts	263.3	17.4%
4. Clean Water Bond STIF Accounts	161.8	10.7%
5. Special Transportation Fund STIF Account	86.3	5.7%
6. Miscellaneous STIF Accounts	<u>16.4</u>	<u>1.1%</u>
Total Available Cash	\$ 1,510.9	100%

# Connecticut's Available Cash

(in millions)



\* The common cash pool-prior to any temporary transfers

# Advantages of CT's Cash Management

- Flexibility- As long as proper legal authority exists, expenditures can occur whenever they are needed rather than when cash is available in a given fund.
  - Individual fund accounts can be permitted to run in the red (negative cash position);
    - Bond Funds- Once State Bond Commission has approved a project, expenditures can occur immediately, rather than waiting for a bond issuance to be completed,
    - Budgeted Funds- Expenditures can occur against an appropriation at the beginning of a fiscal year even if sufficient revenue has yet to be collected,
    - “Receivables”- Expenditures can occur against a receivable even if the grant has yet to be received in cash.
- Pooling of state's resources and inter-fund transfers- Expenditures from fund accounts with negative cash balances are covered in the interim by fund accounts with positive cash balances
- Administrative Efficiency- Disbursements from the large number of state funds can be made from a relatively small number of bank (checking) accounts.

# Practical Outcome

- The timing and level of revenues and expenditures is impacted by the overall health of the economy, and state and federal legislative actions.
- The only area over which there is some Treasurer's Office discretion regarding cash flow management is the timing of bond issues in a fiscal year, which is dependent upon project expenditures and the debt service budgeted.
- Absent the ability to temporarily transfer bond funds (i.e. internal funding), the State could be forced to secure external financing such as:
  - Short-term notes
  - Line of Credit
  - Commercial Paper
- Each one of these external financing sources has attendant costs including:
  - Interest charges
  - Rating agency & legal fees
  - Investment Banker fees
  - Staff time
- **Therefore, the existing practice of pooling internal state resources with the use of temporary inter-fund transfers represents both the most flexible and lowest cost cash management alternative.**

# How Did We Get Here?

- Essentially the General Fund has had a long-standing negative cash position.
- This reflects the net cumulative history of every budgetary measure taken which delayed expenditures into the following fiscal year and counted revenues prior to their receipt since the General Fund came into existence.
- Our budgetary use of the modified cash basis of accounting has contributed to the deteriorating cash position.
  - Over the years the state began accruing certain revenue streams to obtain a one-time “13<sup>th</sup>” month of revenue in a given year.
  - Meanwhile expenditures were left on a cash basis of accounting, resulting in a mismatch in timing between receipts & disbursements.
  - Converting to GAAP based budgets is intended to address these problems.

# How Did We Get Here?

- Connecticut has a 40 plus year history of accruing various revenue streams.

<u>Taxes</u>	<u>Initial Public Act Reference for Accrual</u>
Sales & Use Tax	PA 67-363
Cigarette Tax	PA 76-114
Public Service Tax	PA 76-114
Alcoholic Beverages Tax	PA 76-114
Motor Fuels Tax	PA 76-114
Oil Companies Tax	PA 80-71
Corporation Tax	PA 90-148
Personal Income Tax-Withholding	PA 91-3
Indian Gaming Payments	PA 94-4
Personal Income Tax-Estimates/Finals	PA 03-2
Real Estate Conveyance Tax	PA 03-2
Rents, Fines, Escheats-Bottle Deposits	PA 09-1
Health Provider Tax	PA 11-6
Electric Generation	PA 11-6

# How Did We Get Here?

- Our cash position has been made worse by the depletion of the Budget Reserve Fund and numerous fund sweeps that were conducted over the years.
- The number of fund sweeps increased significantly in FY 2009, FY 2010 and FY 2011 as part of the budgetary strategy for dealing with the most recent economic downturn.
- The balances in these swept accounts would ordinarily be part of our available cash.
- Without the balances from the swept accounts, the likelihood of temporary use of bond fund balances increases.

# Improving CT's Cash Position

The Malloy Administration has sought to improve the state's cash position through the following actions:

- ✓ GAAP- The state's conversion to GAAP accounting (Executive Order #1 and Public Act 11-48) should help prevent the cash position from deteriorating further as the timing of revenues and expenditures are brought into alignment.
- ✓ Avoid Fund Sweeps- Avoidance of fund sweeps to balance the General Fund retains those balances for use by the state in assuring enough cash is on hand at any given moment.
- ✓ Cumulative GAAP Deficit- The paying-down of the state's cumulative GAAP deficit as envisioned in PA 11-48 will significantly and permanently restore the General Fund's cash position.

Yet to be achieved:

- Budget Reserve Fund- Recapitalizing the Budget Reserve Fund would significantly improve the state's cash position. However, by definition these funds are ultimately meant to be used during a rainy day and thus are not a permanent solution.

# What Else Can We Do?

- Budget the annual GAAP increment and the cumulative GAAP amortization in accordance with PA 11-48. This will require significant discipline, at the cost of other priorities.
- Other Ideas to Consider
  - Require deposits to the Budget Reserve Fund, instead of relying on surplus.
  - Improve budgetary control through enhanced rescission authority.
  - Only appropriate up to 97% of the General Fund revenue forecast.
  - Divert all or a portion of certain volatile tax revenue streams to the Budget Reserve Fund. For example, Massachusetts devotes “excess” capital gains revenue to its reserve fund.