CASH FLOW[1]

The state's general fund and accounts cash balance position deteriorated to such an extent that the state found it necessary to borrow cash in order to pay its bills. From October 1980 through July 1981, the state treasurer had to borrow cash through interfund loans to keep the general fund and accounts in the black. In August of 1981, the treasurer negotiated a $100 million loan with local banks which kept the cash balance positive. In September previous borrowings were repaid, but the state was not able to meet the cash requirements for its monthly obligations, including payroll and needed to rely on approximately $185 million of local borrowing and registered warrants. Also in September, new revenue estimates were released which indicated that the general fund would be short over $600 million in revenue through the remainder of the biennium. At this point, Governor Spellman issued Executive Order #81-17 requiring all agencies to reduce expenditures by 10.1 percent in order to keep the budget in balance. The cash situation continued to weaken as a result of low fund cash balances and reduced revenue receipts. The state then negotiated with Citibank, New York, a one-year $400 million loan. Shortly following the loan agreement in October, the bond rating firms (Moody's and Standard and Poor) reduced the state's bond rating while indicating further reductions could occur depending upon the state response to its cash problems.

LEAP Chart #1 shows the cash balance estimates prior to the executive order implementing the 10.1 percent reductions and receipt of the Citibank $400 million loan. (It should be emphasized that whenever the cash balance falls below the zero line, some form of borrowing must occur. Borrowing can be from funds outside the general fund - interfund loans, use of registered warrants, or borrowing directly from the private sector.)

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[1] Cash flow or cash balance is equal to the beginning fund cash balance plus revenue receipts minus disbursements plus outstanding warrants.

CHART 1

LEAP OFFICE

LEAP

WASHINGTON STATE

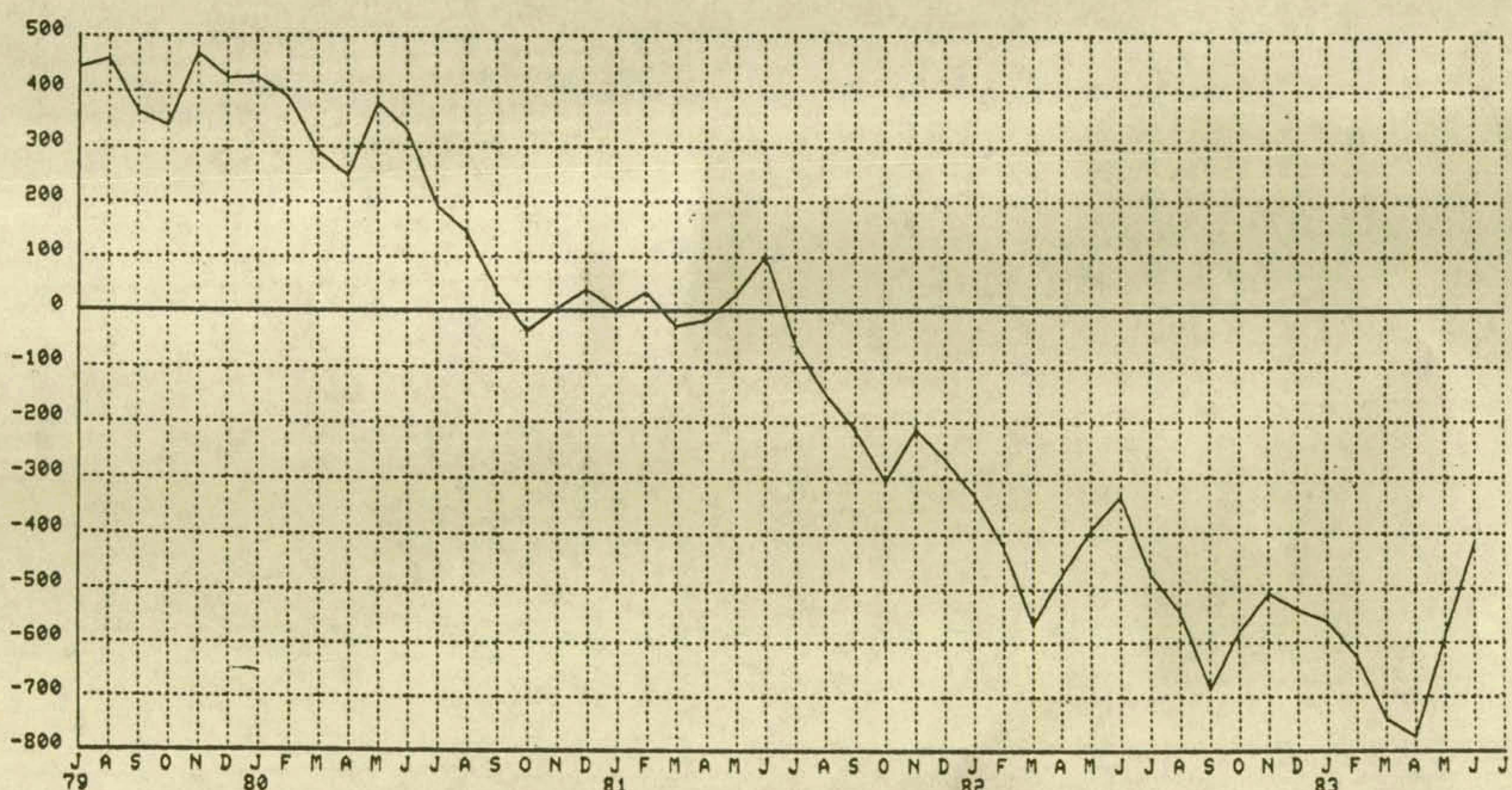
DATE 10/12/81

TIME 17:10

END OF MONTH CASH BALANCES
ACTUALS THRU AUGUST, 1981

(DOLLARS IN MILLIONS)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1979							442.9	458.1	362.1	337.9	468.6	423.5
1980	424.8	388.9	291.0	246.6	379.2	329.0	191.9	145.0	36.1	<36.3>	4.2	38.8
1981	2.3	34.2	<26.5>	<16.3>	29.4	101.6	<61.1>	<149.2>	<214.6>	<306.4>	<212.2>	<267.2>
1982	<331.8>	<423.2>	<564.5>	<473.6>	<392.9>	<333.1>	<472.6>	<544.1>	<687.1>	<579.8>	<509.3>	<538.5>
1983	<559.6>	<626.8>	<740.3>	<773.5>	<586.4>	<413.6>						



Governor Spellman's Proposed Solution

Governor Spellman's statement of the problem included addressing the budget shortfall resulting from declining revenues and the related cash shortage problem described above. The Governor focused his statements concerning the cash flow problems around the need to pay back the Citibank $400 million loan in October of 1982. At the time the Governor was making his recommendations for budget reductions and increased revenues, it appeared that the state would have approximately a $200 million cash shortage after repayment of the Citibank loan. However, even if the state were to address the $200 million cash problem in October of 1982, future cash problems would still occur because of accounting procedures which charge back to June revenues from June business activity which aren't received until August 10.

The practice of charging back revenue received between July 1 and August 10 to the prior biennium has been termed the 25th month revenue chargeback. Governor Spellman focused his statement of the cash flow problem not on the October 1982 cash shortage but rather on the 25th month revenue chargeback. Under the revenue estimates utilized by the Governor (prior to the 1¢ sales/use tax increase), the chargeback was estimated at $258 million. The focus of the Governor's recommended cash flow solution became "buying back" the state's 25th month revenue accounting. The Governor recommended increasing the state sales tax rate and including most nonmedical services under the sales tax base. While this recommendation would have permitted the elimination of the 25th month revenue accounting, it would not have provided a full solution to the cash shortage estimated for October of 1982. In addition, after the Governor had made his recommendations, the revenue estimates were again revised downward by $97 million, which further aggravated the October 1982 cash problem. The Governor's response to this further potential reduction in revenues was to reduce the likelihood that the state would be able to eliminate its 25th month revenue chargeback during the 1983-85 biennium.

Deposits to the Repayment Account were not available for any purpose other than the repayment of the loan. This determination results in a cash flow loss of $125 million for August and $250 million for September. With these funds not available, the month of September 1982 became an almost equal negative cash problem as the October loan repayment date.

An analysis of the Governor's recommended budget reductions and increased taxes indicated that those proposals would not eliminate the cash shortages during selected months. The Office of Financial Management then suggested several cash management options which could be utilized if necessary. These options included withholding the quarterly payments to the LEOFF retirement system, which under statute are only required biennially. This option would make available 5 quarterly payments of $22.8 million or $114 million by September 1982. A second option would be to access some or all of the authorized interfund loan capacity. (The State Finance Committee has currently authorized the state treasurer to borrow from funds outside the general fund up to $91.5 million. The state treasurer would be required to pay interest costs equal to the 90 day treasury rate on any of these borrowings.) The end result of the Governor's recommendations with utilization of interfund loans and other management options would have met the September and October cash shortages but would not have been sufficient to buy back the 25th month revenue chargeback. However, if any further negative impacts on revenue were to occur, little or no margin would exist during the critical months, again forcing the state to borrow for cash purposes.

The Legislative Response

In response to the budget shortfall and related cash flow problem, the Legislature reduced expenditures by $284 million and increased the sales and use tax 1¢ or $490 million ($527.4 million for budget purposes). In addition, the Legislature passed HB 773 which added new account balances to the general fund to help reduce the cash shortage ($32.5 million). Also passed was SSB 3398 which permitted a discount for full payment of the property tax. This legislation is estimated to generate $7.3 million in early property tax payments which will also help the state's cash flow problems. Adjustments for actuals versus estimated end-of-the-month cash balances are also expected to improve the cash position by about $30 million.

The bottom line in LEAP Chart #2 depicts the estimated cash position assuming no action other than receipt of the $400 million Citibank loan. Under these estimates, the general fund and accounts would have a negative balance of $614.6 million during October of 1982. Also graphed in this chart is the effect of all enacted legislation, budget reductions, and increased revenues. This "middle line" indicates that even with the budget reduction and tax increases the October cash problem is still significant at a negative $163.1 million in October 1982. The top line on Chart #2 shows the cash position assuming that, in addition to the legislative enactments, LEOFF payments are deferred until the end of the biennium. Under this scenario the October deficit is $49.1 million.

The January 1982 legislative session will have to deal with the remaining cash flow problems. However, by January several months worth of actual data will be available and will replace the estimates now being used. The Legislature will have to make a policy decision to either reduce expenditures or generate more revenue or incur the additional costs of borrowing funds to meet its cash flow requirements.

CHART 2

LEAP OFFICE

LEAP

1981-83 CASH BALANCES REFLECTING LEGISLATIVE REVENUE INCREASES AND $284 MILLION IN CUTS (GENERAL FUND AND ACCOUNTS)

DATE 12/07/81
TIME 09:01

(DOLLARS IN MILLIONS)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
CASH BALANCE (UNADJUSTED)												
1982	91.0	3.7	<141.0>	<53.5>	19.2	80.4	<81.6>	<268.3>	<547.2>	<614.6>	<540.4>	<580.0>
1983	<624.8>	<684.5>	<809.2>	<868.4>	<671.1>	<557.6>						
CASH BALANCE WITH LEGISLATIVE REVENUE INCREASES AND $284 IN CUTS												
1982	159.6	109.1	<1.9>	124.4	240.7	344.6	224.3	80.7	<150.8>	<163.1>	<37.8>	<30.3>
1983	<22.6>	<41.4>	<128.0>	<144.4>	106.8	283.0						
CASH BALANCE WITH LEOFF DEFERRAL												
1982	205.2	154.7	66.5	192.8	309.1	435.8	315.5	171.9	<36.8>	<49.1>	76.2	83.7
1983	91.4	72.6	<14.0>	<30.4>	220.8	263.0