

PAYMENT OF INTEREST ON GENERAL FUND LOANS

Item 86 from the General Fund

Budget p. 43 Program p. I-228

Requested 1974-75	\$8,000,000
Estimated 1973-74.....	1,000,000
Actual 1972-73	—
Requested increase \$7,000,000	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Temporary loans from special funds are used to provide cash during the months when General Fund disbursements exceed revenues.

The estimated \$1 million interest cost for temporary loans to the General Fund for the current year will be financed from the Emergency Fund, Item 90, Budget Act of 1973. For the budget year, the projected \$8 million interest cost will be a General Fund obligation.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Withholding Improves Cash Flow

Prior to 1972, the General Fund normally borrowed from other state funds during seven of the twelve months of each fiscal year, with peak borrowing during the month of March. These loans were repaid in April, upon receipt of the personal income tax payments.

The implementation of monthly withholding of state personal income tax in January 1972 resulted in a more even cash flow for the General Fund, reducing substantially the need for borrowing from the other funds under normal economic and budgetary conditions.

No Need to Borrow in 1972-73

The General Fund started 1972-73 with a \$256 million cash balance. As a result of withholding and significant growth in state revenues from a healthy economy, this balance increased to \$591.8 million by the end of the 1972-73 fiscal year. Consequently, there was no need to borrow.

Loans Required in Current and Budget Years

As a result of enactment of 1973 legislation reducing or refunding taxes, and an expected general economic slowdown in 1974, it is anticipated that temporary loans to the General Fund will be required in both the current and budget years. The current year will end with an estimated \$80 million and the budget year with a projected \$30 million in outstanding General Fund loans.

1. *Effect of 1973 Legislation.* The enactment of Chapter 296, Statutes of 1973 (SB 90) had a major impact on General Fund cash flow for 1973-74. This legislation rolled back, for a period of 6 months, the sales tax increase and granted a variable income tax credit to all taxpayers on their 1973 income.
2. *Economic Slowdown.* An anticipated general downturn in the 1974

economy, accentuated by the energy crisis, is expected to reduce current and budget year General Fund revenues from their normal levels.

Table 1 presents a statement of cash flow of General Fund receipts and disbursements on a monthly basis for the current and budget years. It also provides an estimate of total special fund resources available to meet temporary borrowing requirements of the General Fund. A negative figure in the "current excess or deficit" column indicates the months in which disbursements have exceeded or are anticipated to exceed revenues. The "borrowing capacity" column shows the actual or estimated total special fund revenues available to meet the temporary borrowing requirements of the General Fund. The amount of interest paid is determined by the amount borrowed, the length of the borrowing period and the prevailing interest rates, as discussed in the following section.

Table 1
General Fund Cash Flow for 1973-74 and 1974-75
(Millions)

Month	Receipts	Disbursements	Current excess or deficit	Borrowing capacity	Cumulative borrowing	Unused borrowing capacity
July 1973.....	\$476.5	\$640.2	\$-163.7	\$827.9	— ^a	\$827.9
August	901.7	648.3	253.4	764.3	—	764.3
September	696.3	748.7	-52.4	682.8	—	682.8
October	399.8	630.4	-230.6	706.9	—	706.9
November	847.7	629.9	217.8	684.9	—	684.9
December	562.7	812.3	-249.6	670.3	—	670.3
January 1974 ..	538.7	590.8	-52.1	792.7	—	792.7
February	455.5	657.7	-202.2	976.8	—	976.8
March	525.7	551.4	-25.7	908.7	—	908.7
April	616.7	843.9	-227.2	737.0	\$209.0	528.0
May	576.4	610.5	-34.1	667.9	243.0	424.9
June.....	766.1	602.8	163.3	666.0	80.0	586.0
1974-75						
July 1974.....	550.6	642.6	-92.0	643.0	172.0	471.0
August	863.2	694.1	169.1	646.5	3.0	643.5
September	798.3	780.1	18.2	600.7	—	600.7
October	408.5	625.7	-217.2	591.2	202.0	389.2
November	820.0	713.4	106.6	560.8	97.0	463.8
December	690.7	876.3	-185.6	585.7	281.0	304.7
January 1975 ..	609.2	642.4	-33.2	669.4	314.0	355.4
February	708.7	700.2	8.5	756.3	305.0	451.3
March	573.7	585.2	-11.5	798.5	317.0	481.5
April	807.8	843.3	-35.5	690.3	352.0	338.3
May	734.3	655.8	78.5	632.8	274.0	358.8
June.....	831.2	586.8	244.4	631.4	30.0	601.4

^a At the end of 1972-73 the General Fund had a cash balance of \$591.8 million, including a \$67 million loan to the Social Welfare Federal Fund which was repaid in July 1973. Therefore, it was not necessary to borrow in July 1973 to cover the revenue deficiency. The carryover of this year-end balance is expected to keep the General Fund in an unborrowed condition until April 1974.

The data shown in Table 1 represent cash received and disbursed by the Controller and will not agree with revenue and expenditure totals shown elsewhere in the budget. Budget revenues include cash collected by the agencies, but not yet receipted by the Controller, and certain revenues

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earned but not yet received. Expenditures in the budget include accrued expenditures at year end. The data shown in Table 1 are actuals for the first five months of the current year. Receipts and disbursements for the balance of the current and for the budget year are estimated. The cash flow estimates for the budget year take into consideration only the revenues and expenditures proposed in the budget, as introduced. Any changes with fiscal impact made subsequent to that time will affect the estimated cash flow and interest costs.

3. *Interest Rate Assumptions on General Fund Loans.* The interest costs, as projected by the Department of Finance, are based upon the following assumptions:

- a. An average 6-percent rate is assumed during the borrowing periods in both 1973-74 and 1974-75.
- b. The 6-percent rate for each month is calculated on the month ending borrowed balances—when demand is usually highest. It does not take into account the intramonth actions which, on a day-to-day basis, usually result in lower average monthly borrowed balances.

Therefore, while the 6-percent rate may be somewhat lower than the prevailing market rates, especially in 1973-74, it appears that this would be counteracted, for the most part, by the above estimating procedure.

The budgeted amounts for interest in both 1973-74 and 1974-75 appear to be adequate if the amount of borrowing does not rise above the levels projected.

Borrowing Resources

The General Fund normally borrows from the State Highway Fund and the Pooled Money Investment Account. The latter includes a series of special funds pooled together for investment purposes. Table 2 shows the loan resources available from these funds during the current and budget years.

Table 2
Special Funds Loan Capacity for the Current and Budget Years
(millions)

Month	1973-74			1974-75		
	PMI ^a Account	Highway Account	Total	PMI ^a Account	Highway Account	Total
July	\$701.2	\$126.7	\$827.9	\$630.0	\$13.0	\$643.0
August	670.5	93.8	764.3	626.5	20.0	646.5
September	608.5	74.3	682.8	573.7	27.0	600.7
October	631.9	75.0	706.9	560.2	31.0	591.2
November	612.9	72.0	684.9	541.8	19.0	560.8
December	616.3	54.0	670.3	579.7	6.0	585.7
January	731.7	61.0	792.7	658.4	11.0	669.4
February	890.8	86.0	976.8	724.3	32.0	756.3
March	825.7	83.0	908.7	751.5	47.0	798.5
April	665.0	72.0	737.0	624.3	66.0	690.3
May	630.9	37.0	667.9	584.8	48.0	632.8
June	639.0	27.0	666.0	596.4	35.0	631.4

^a Pooled Money Investment Account.

The borrowing capacity totals are monthend estimates and, as shown by Table 2, fluctuate considerably. The actual amounts available will vary from these estimates, depending upon the day-to-day transfer of tax payments, the unpredictable requirements (e.g., availability of federal funds) of some major funds such as the Highway Fund and the changing composition of funds in the Pooled Money Investment Account.

However, when these monthly loanable resources are compared to the respective monthly borrowing needs in Table 1, the difference (i.e. the unused borrowing capacity) still shows a sizable monthly safety margin on which the General Fund can draw in case of emergency.

PROVISIONS FOR SALARY AND BENEFIT INCREASES

Civil Service, Statutory and Exempt Employees

Items 87, 90 and 94 from the
General Fund; Items 88, 91
and 96 from special funds;
and Items 89, 92 and 97 from
other funds

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Requested 1974-75	\$172,281,442
Estimated 1973-74.....	196,168,681 ^a
Total recommended reduction	Pending

^a Includes \$80,878,442 which was withheld pursuant to a ruling by the Federal Cost of Living Council.

Higher Education Employees

Items 95, 351, 352, 361 and 362
from the General Fund

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Requested 1974-75	\$58,351,524
Estimated 1973-74.....	66,849,155 ^a
Total recommended reduction	None

^a Includes \$13,946,524 which was withheld pursuant to a ruling by the federal Cost of Living Council.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. Salary Increase. Withhold recommendation relative to salary increase of civil service and related employees pending receipt of the State Personnel Board's March 1974 salary survey. 226
2. Annual Salary Report. Recommend State Personnel Board, in its future annual reports, base its salary increase recommendations on the average state civil service salary lag projected as of the following July. 227
3. Employee Benefits. If improvements in employee benefits are to be provided, recommend they be provided equitably to all categories of state employees. 227
4. Salary Compaction. Recommend Commission on California State Government Organization and Economy, with as- 228