

March 18, 2009

# California's Cash and Debt Situation: Its Effect on Resources Projects

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 3 on Resources

Hon. Ira Ruskin, Chair





## Presentation Overview

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- Resources and Environmental Protection Bonds and Debt Service Costs**
- Update on Status of Resources and Environmental Protection Projects**
- The State's Cash and Debt Situation**
- Options for the Legislature Concerning Halted and Suspended Projects**



## Resources Bonds Status Report

<b>Resources General Obligation Bonds, 1996 to Present</b>					
<i>(In Millions)</i>					
<b>Bond</b>	<b>Year</b>	<b>Total Authorization</b>	<b>Previous Appropriations<sup>a</sup></b>	<b>Proposed Appropriations<sup>b</sup></b>	<b>Balance (July 2010)</b>
Proposition 204 <sup>c</sup>	1996	\$870	\$827	\$22	\$21
Proposition 12	2000	2,100	2,072	10	18
Proposition 13 <sup>c</sup>	2000	2,095	1,892	87	116
Proposition 40	2002	2,600	2,574	14	12
Proposition 50	2002	3,440	3,381	10	49
Proposition 1B <sup>d</sup>	2006	1,200	735	254	212
Proposition 1C <sup>e</sup>	2006	200	7	11	182
Proposition 1E	2006	4,090	1,514	563	2,013
Proposition 84	2006	5,388	2,949	795	1,644
<b>Totals</b>		<b>\$21,983</b>	<b>\$15,953</b>	<b>\$1,764</b>	<b>\$4,266</b>

<sup>a</sup> Includes funds previously appropriated, statewide bond costs, future-year obligations, and reversions.  
<sup>b</sup> As proposed in the 2009-10 Governor's Budget.  
<sup>c</sup> \$125 million was transferred from Proposition 204 to Proposition 13 accounts.  
<sup>d</sup> Primarily a transportation bond, this includes sections that have funds for air quality.  
<sup>e</sup> Primarily a housing bond, this includes funds dedicated for housing-related parks.

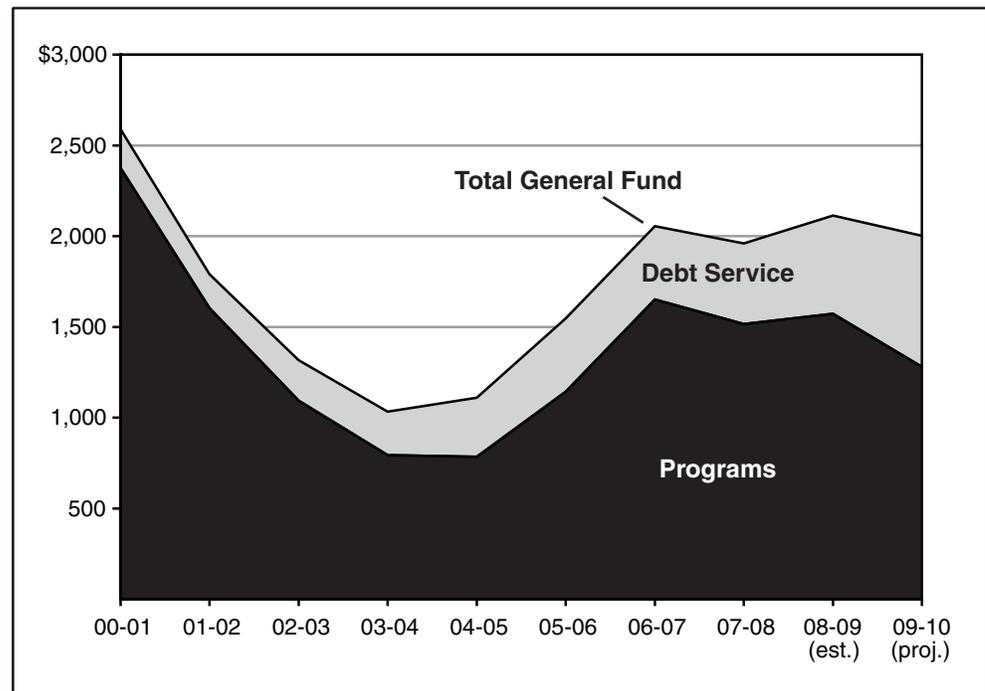
<b>Resources General Obligation Bonds, 1996 to Present<sup>a</sup> by Program Area</b>				
<i>(In Millions)</i>				
	<b>Allocation</b>	<b>Previous Appropriations<sup>b</sup></b>	<b>Proposed Appropriations<sup>c</sup></b>	<b>Balance (July 2010)</b>
Parks and recreation				
State parks	\$1,094	\$913	\$71	\$110
Local parks	2,412	1,838	206	369
Historic and cultural resources	240	236	1	3
Nature education	100	6	94	—
Subtotals	(\$3,846)	(\$2,993)	(\$371)	(\$481)
Water quality	\$3,647	\$2,582	\$138	\$927
Water management	6,843	4,063	638	2,142
Conservation, restoration, and land acquisition	4,711	3,972	312	427
CalFed/Delta related	1,686	1,557	52	77
Air quality	1,250	784	254	212
<b>Totals</b>	<b>\$21,983</b>	<b>\$15,953</b>	<b>\$1,764</b>	<b>\$4,266</b>

<sup>a</sup> Includes Propositions 204, 12, 13, 40, 50, 1B, 1C, 1E, and 84.  
<sup>b</sup> Includes funds previously appropriated, statewide bond costs, future-year obligations, and reversions.  
<sup>c</sup> As proposed in the 2009-10 Governor's Budget.



## General Fund Bond Debt-Service Costs on the Rise

(In Millions)



- Voters Have Approved Several Bond Measures.** General Fund expenditures for resources-related general obligation (GO) debt service have increased dramatically over the last ten years, reflecting voter approval of several increasingly larger bond measures.
- Debt Service Makes Up Larger Portion of Resources and Environmental Protection Budget.** In 2000-01, General Fund expenditures for resources-related GO debt service were \$215 million, or 8 percent of General Fund spending for resources and environmental protection programs totaling \$2.6 billion. In the 2009-10 proposed Governor’s budget, General Fund expenditures for resources-related GO debt service were \$722 million, or 36 percent of General Fund spending for resources and environmental protection programs totaling \$2 billion.



## Status of State Capital Outlay and Grant-Funded Projects

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- Funding for Projects Typically Proceeds With Loans Approved by Pooled Money Investment Board (PMIB).** The PMIB—consisting of the Treasurer, Controller, and Director of Finance—generally approves interim loans (known as “AB 55 loans”) from the state’s pooled cash accounts to move capital outlay and similar grant-funded projects forward pending issuance of state notes or bonds. The notes or bonds generally repay the AB 55 loans from the pool and allow the pool to make additional AB 55 loans for projects.
- State Funding for Thousands of Projects Halted in December.** The PMIB froze AB 55 loan funding for thousands of resources-related and other projects in December 2008 due to (1) the state’s inability to issue notes or bonds to repay the pool for its outstanding loans and (2) the increasing needs of the General Fund to borrow from the pool due to the state’s cash flow and budget crises.
- State Funding for Projects Remains Frozen.** Except for 276 “exempted projects” designed by the Department of Finance, state funding for all capital outlay and similar grant-funded projects remains halted.
- Bond Issuance Expected to Resume Soon, but Available Bond Funding Remains Constrained.** The Treasurer has announced the state will attempt to sell \$4 billion of GO bonds to investors next week. An additional bond sale may proceed in April. Because state bond sales were halted due to the global credit crunch and the state’s budget and cash flow crises, these will be the first GO bond sales of 2008-09. By contrast, the Treasurer—in his October 2008 report on state debt affordability—reported the state had planned to issue \$11 billion of GO bonds in 2008-09 and an additional \$14 billion in 2009-10 to cover project costs—including those related to the 2006 bond measures. This suggests that available bond funding sources—at least for now—are insufficient to allow state-funded projects to proceed at their previously planned pace.



## Will the State's Return to the Bond Market Allow Project Funding to Resume?

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- Much of the Bond Proceeds Will Be Needed for Unpaid Bills.*** About \$6 billion of AB 55 loans for projects are outstanding—meaning loans from the state's pooled accounts that have not yet been reimbursed with bond or note issuances. About \$3 billion of this amount is for unpaid bills for project activities. Much of the March and April GO issues will be needed to cover these costs, reducing substantially any portion of the money that would be available to resume projects. Moreover, over \$1 billion is needed to keep the 276 exempted projects progressing through June 2009.
  
- Unlikely That PMIB Will Resume AB 55 Loan Funding for Most Halted Projects Soon.*** Because most of the proceeds from the upcoming bond sales will be needed for the costs described above, it appears unlikely that the PMIB will resume funding of most halted projects in the immediate future. (The PMIB meets later today to begin discussions on how quickly and to what extent the AB 55 loan freeze will be lifted.) Further complicating the PMIB's decision is the continuing very weak condition of the state's overall cash flows.



## Budget Package Helped State Cash Flows for 2008-09...

- February Budget Package Was an Impressive Start to Correcting the State's Fiscal Situation.** As we described in our recent publication, *The Fiscal Outlook Under the February Budget Package*, the \$42 billion in solutions adopted by the Legislature and the Governor in February was an impressive step in addressing the state's monumental budget shortfall. By using both sides of the ledger—revenue increases and spending reductions—to attack the state's dire budget situation, the Legislature also improved the state's cash flow outlook, particularly for the rest of 2008-09.
- State Cash Flows Expected to Be Weak, but Manageable, Through June 2009.** Because of the solutions in the budget package, the Controller recently released previously deferred payments to local governments and tax refund recipients, among others. As shown in the figure below, the state's General Fund "cash cushion" (the amount available from all available state accounts to make General Fund payments on a timely basis) should be positive at the end of each month through June 2009. (It is possible, however, that the state will face cash shortfalls on a daily basis in early April.)

**(In Billions)**

	March	April	May	June
Projected General Fund "cash cushion" prior to February budget package	-\$4.2	-\$3.5	-\$4.4	-\$3.7
Projected cash cushion after February budget package	1.8	3.6	2.7	6.9
<p><sup>a</sup> Administration cash cushion estimates above show the cash cushion on last day of each month. Does not reflect possible \$1.5 billion revenue anticipation note to cope with possible cash shortage during the first three weeks of April. This borrowing would be repaid before the end of the current year.</p>				



## ...But More Work to Be Done to Address 2009-10 Budget and Cash Flow Situation

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***Weakened Cash Cushion at End of 2008-09 Leaves General Fund in Precarious Position.*** The administration—working with the Controller and the Treasurer—has now finalized preliminary 2009-10 General Fund cash flow estimates (summarized in the figure below). Principally because of the weakened cash position of the General Fund at the end of 2008-09, the state’s cash flows will remain precarious in the early months of 2009-10 unless the Legislature enacts additional budget or cash flow solutions.

***(In Billions)***

	July 2009	October 2009	February 2010	June 2010
Administration’s projected cash cushion after February budget package (assuming \$13 billion new RAN or RAW borrowing repaid in June 2010)	\$13.2	\$3.6	\$2.9	\$10.3
Adjusted projected cash cushion (assuming a smaller \$5 billion RAN or RAW borrowing—similar to that issued in October 2008)	5.1	-4.6	-5.3	10.3

<sup>a</sup> RAN = revenue anticipation note; RAW = revenue anticipation warrant.

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***State Unlikely to Be Able to Borrow Over \$10 Billion for Cash Flow Purposes.*** Currently, the administration estimates that over \$13 billion of cash flow borrowing would be required to allow the General Fund to make timely payments throughout 2009-10. We believe it is unlikely the state can secure this much cash flow borrowing. For instance, if the state secures only \$5 billion in cash flow borrowing (as it did in October 2008), it would be unable to make currently budgeted payments on time for much of 2009-10. Revenue deterioration—such as the \$8 billion we recently forecast—would worsen the cash situation even more.
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***Additional Budget and Cash Flow Solutions Will Be Needed.*** Accordingly, the Legislature will need to make additional adjustments to the budget and state cash flows. To allow the state to begin to secure external cash flow borrowing in July and to prevent another cash flow crisis, such budgetary and cash flow adjustments may need to be enacted by the end of June or early July.



## Options for the Legislature to Address Funding Halt for Projects

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- Limited Bond Market Access and Cash Flow Issues Limit PMIB's Ability to Resume AB 55 Loan Funding.** As described above, the state's limited bond market access—coupled with extreme weakness in the state's cash flows—limits the ability of PMIB to resume AB 55 loan funding for halted projects.
- Legislature Has Limited Ability to Affect the State of the Bond Markets.** A major factor in the PMIB's funding freeze was the continuing tightness of the bond markets. This is a global phenomenon related to the financial crisis. As such, the Legislature has limited ability to influence it and help the PMIB resume project funding.
- Focus on Budget and Cash Flow.** By taking actions between now and summer to address the state's continuing budget and cash flow issues, however, the Legislature can put the state in the best possible position to secure bond market funding. This provides the state with the best chance of resuming project funding as soon as possible. If investors are comfortable the budget is balanced and cash flows are manageable, bond market access will increase in the future.



## Possible Ways to Prioritize Limited AB 55 And Bond Funding for State-Funded Projects

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- Monitor Administration Actions on Projects.** The Legislature should regularly request information from the administration on halted projects, plans to resume funding of the halted projects, and unpaid project bills so long as the funding freeze continues. There are various criteria that policy makers can use to determine which projects receive limited amounts of AB 55 and bond funding (listed below). If the Legislature is dissatisfied with the priorities the administration identifies for AB 55 and bond funding, it can enact laws or budget measures to ensure that the limited amount of project funding meets its priorities instead.
- Economic and employment impact.
  - Public health and safety.
  - Other public policy goals.
  - Avoiding increased costs later to complete a project.
  - Leveraging additional federal or local dollars as soon as possible.
  - Avoiding costs to shutdown a project while under construction.