CASH MANAGEMENT AND GENERAL FUND BORROWING

Prepared by the State Controller's Office
In collaboration with the State Treasurer's Office and the Department of Finance

The State manages the cash needs of the General Fund through a combination of external and internal borrowing.

External borrowing. Using Budget Act cash flow projections prepared by the Department of Finance as its baseline, the Controller determines the amount of external borrowing needs, and requests the Treasurer sell short-term notes, called Revenue Anticipation Notes (RANs), to obtain funds that are repaid by the end of each fiscal year. These proceeds are deposited into the State Treasury and are the first source of moneys the General Fund draws upon to meet its cash flow needs.

Internal borrowing. The Controller can temporarily transfer moneys from certain borrowable funds or from the Pooled Money Investment Account (PMIA) to the General Fund to cover daily cash flow shortages (see "Accounting for cash flow loans" section), as authorized by Government Code 16310. Borrowable funds are funds in the State Treasury that are under the control of the Legislature and are not restricted from borrowing by the California Constitution, bond indenture, or case law. These loans cannot interfere with the object for which a fund was created and do not impede the day-to-day cash needs of the borrowable funds. Examples of non-borrowable funds are the Local Agency Investment Fund (LAIF), bond funds, and funds for pension payments.

There are two categories of funds and accounts[i] available for borrowing under GC Section 16310:

1) Special Funds – these are Governmental Cost Funds used to account for taxes and revenues that are restricted by law for particular functions or activities of government. The General Fund may obtain non-interest bearing loans from these funds, an amount equal to 10% or less of the total additions as shown in the Statement of Operations of the preceding fiscal year as set forth in the Controller's Budgetary/Legal Basis Annual Report. Loan amounts in excess of the 10% threshold are subject to interest at the PMIA rate.

2) Other Funds and Accounts – these are unrestricted funds, including Non-Governmental Cost Funds, that generally consist of monies derived from sources other than general or special taxes, license fees, or other state revenues. Balances in some of the funds and accounts in this category that are designated to reimburse or revert to the General Fund are borrowable interest-free, such as Feeder Funds, some Agency Bank Accounts and Special Deposit Funds, and the Federal Trust Fund. Non-Governmental Cost Funds are paid interest at the PMIA rate on the full amount of the loan.

In addition, Government Code 16418 authorizes the Controller to transfer funds from the Special Fund for Economic Uncertainties (SFEU) or from the General Fund Special Accounts (GFSA) as necessary to meet temporary cash needs of the General Fund. The Controller is required to return all loans without payment of interest as soon as sufficient monies are available in the General Fund.

1) Special Fund for Economic Uncertainties – the annual amount in the SFEU is established in a control section of the Budget Act. The SFEU protects against unforeseen revenue reductions and/or unanticipated expenditure increases.

2) General Fund Special Accounts – GFSA are accounts established by statute in the General Fund. Each of these accounts has a unique legislative purpose. Revenues and expenditures of these accounts are not included in the General Fund and are required to be treated as other governmental cost funds for accounting and budgeting purposes pursuant to Chapter 942, Statutes of 1977.

Accounting for cash flow loans. On a daily basis, the Controller monitors the activity of the General Fund to determine its cash needs and calculates the amount of moneys not needed by borrowable funds. If General Fund receipts exceed disbursements, then any outstanding loans are repaid from the surplus. If disbursements exceed receipts, and the General Fund cash and RANs resources have been exhausted, then loans are processed from the "Pool" of available borrowable funds to cover the shortage. Loans are processed first from interest-free sources, and repaid last, to minimize costs.

The interest-free loans are posted as a reduction to Cash (General Ledger 1140) and an increase to the Due From (GL 1410) account of the individual borrowable fund. Interest-bearing loan amounts are processed in aggregate from the "Pool" rather than as loans from individual borrowable funds. When the General Fund borrows from the "Pool" of available borrowable funds, the cash balance of each respective fund remains unchanged – and is not reduced by the amount of the loans. The cash balance of a fund is comprised of balances in all three General Ledger accounts: Cash (GL1140), Due From (GL1410), and Investment in Surplus Money Investment Fund (SMIF) (GL1210).

Interest earnings and distribution of cash flow borrowing. The Treasurer invests any idle moneys in the PMIA to earn interest, and these earnings are distributed by the Controller on a quarterly basis to most funds in the PMIA, based on their dollar-day balances. A dollar-day balance of a fund is calculated by pro-rating the total of the increases/decreases of deposits in SMIF (GL 1210). When the General Fund borrows for cash flow purposes from the PMIA, the individual fund Cash account (GL 1140) is unaffected and consequently the amount invested in SMIF is also unaffected. When the General Fund borrows from an interest-free source, the fund's Cash account (GL 1140) is reduced, and subsequently the amount available for investment in SMIF is reduced, which results in no interest earnings on the borrowed amount.

In summary, when the General Fund "borrows" for cash flow purposes from Non-Governmental Cost Funds or other funds specifically exempt from interest-free borrowing, there is no reduction in cash balance or interest earnings for these individual funds. The borrowing is made from the "Pool" and not from individual funds.

Additional cash management measures. The Controller typically updates its baseline General Fund cash flow projections on a monthly basis for actual activities. The Controller collaborates with the Department of Finance, State Treasurer's Office, and the Legislature to resolve any foreseeable cash flow issues. Statutorily deferred payments or changes in tax revenue remittance due dates, as well as designating additional funds as borrowable are examples of actions taken in recent years to address liquidity issues. As a last resort, if it is determined that the amount of available internal and external borrowable resources may fall short of the General Fund need, the Controller may implement additional cash management strategies, such as delayed payments or registered warrants to preserve enough cash to meet the priority obligations of the General Fund.

Budgetary loans. Transfers pursuant to GC 16310 and GC 16418 as described above are specifically for General Fund temporary cash flow purposes and differ from budgetary loans. Budgetary loans can be authorized each year in the Budget Act or through special legislation, are for a specific amount that is loaned from one fund to another generally with a specified repayment date, and typically cross fiscal years. These are reflected in each respective fund's Loan To (GL 2170) and Loan From (GL 4050) accounts and reduces the cash balance (GL 1140) of the loaning fund and increases the cash balance of the receiving fund.

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[i] Fund classifications are reflected in the State's Uniform Codes Manual. Classifications of funds referenced in this document are the Budgetary/Legal Basis of fund classification.