Fiscal Analysis Department
Minnesota House of Representatives

ISSUE BRIEF

State General Fund Cash Flow
November 2010

The state general fund budget is projected to be in balance for the FY 2010-11 biennium. However, the state has cash flow problems because it pays out money earlier in the fiscal year than revenue comes in to cover those payments. This Issue Brief looks at the timing of general fund revenue and expenditures and actions taken to deal with the cash flow problems.

State general fund cash flow is the movement of cash determined by when revenues to the state are received and when payments made by the state are disbursed. Payment schedules for most programs are set in law. Cash flow problems occur when payments go out before revenues come in and reserves are not adequate to cover the cash flow difference. Examples of revenues and payments that contribute to the uneven cash flow and cash flow problems include:

- City and county aid payments are made in July and December.
- Statewide property tax payments are received in December and June.
- Income tax revenue is received every month but the largest payment is in April.
- Sales tax revenue is also received every month but the largest payment is in June.
- Payments to school districts are made twice a month but the aid payment shift results in larger payments in August and September than other months.
- Debt service payment is made in November.

Minnesota Statute (M.S. 16A.671, Subd. 3, paragraph (a)) provides a broad definition of the general fund for cash flow purposes. For purposes of general fund cash flow the commissioner of Minnesota Management and Budget may utilize cash balances in other funds. Cash amounts borrowed from other funds to support general fund cash flow must be paid back by the end of the biennium. Funds not available for general fund cash flow purposes include amounts in bond proceeds funds, constitutionally established funds (such as the trunk highway fund), and federal funds.

At times during the current biennium close to $1 billion has been borrowed from other funds for general fund cash flow purposes. Funds that have contributed major amounts are the MNCSU fund (Minnesota State Colleges and Universities), Special Revenue Fund and the Health Care Access Fund.

At the end of the 2010 legislative session Minnesota Management and Budget (MMB) projected the cash flow situation for FY 2011. Because cash flow changes daily as payments are sent out and revenues come in, the projections are done on a daily basis. MMB has a goal of having a minimum cash balance of $400 million on hand at all times to cover any unanticipated situations.

The chart below illustrates the cash low points each month for the statutory general fund for FY 2011. The statutory general fund refers to the general fund plus all the funds that can be used to provide cash for the general fund. The first column shows the monthly low point before any administrative actions are implemented, the second column shows the monthly low point the after administrative actions described in the paragraph following the chart are implemented.

Cash Flow Low Point for FY 2011 (dollars in thousands)

Month	Monthly Cash Low Point Before Administrative Actions	Monthly Cash Low Point After Administrative Actions
July 2010	$1,550	$1,550
Aug. 2010	728	754
Sept. 2010	386	654
Oct. 2010	23	368
Nov. 2010	9	376
Dec. 2010	-277	109
Jan. 2011	74	324
Feb. 2011	138	430
Mar. 2011	-388	-55
April 2011	-397	-20
May 2011	145	565
June 2011	573	886

The Executive Branch is implementing a number of administrative actions to relieve the general fund cash flow problems. The effect of those actions on cash flow is shown in the second column above. For FY 2011 those actions include:

- Delaying about $141 million in payments to school districts (authority in M.S. 127A.46).
- Delaying $89 million of September and October 2010 payments to the University of Minnesota until June 2011(authority under M.S. 16A.152, Subd. 7).
- Delaying $221 million of sales and corporate tax refunds over $5,000 from the August through December period (part of the budget balancing solution enacted in the 2010 session delayed January through June refunds into FY 2012).
- Delaying Department of Human Service pre-paid capitation payments to health plans up to two weeks that would be allowed within the current contracts.

The final action that may be taken for general fund cash purposes is short term borrowing. The Minnesota Constitution (Article XI, Section 6) allows the state to issue certificates of indebtedness for cash flow to be issued within a biennium. In late September the state finalized a $600 million line of credit with U.S. Bank as the lead bank that the state can draw on, if needed, for cash flow purposes. To open the line of credit cost the state $843,000. Of that amount $635,000 was the cost paid to U.S. Bank to open the line of credit and $208,000 was spent on bond counsel and other professional fees. If this line of credit is kept in place until the end of June 2011 but not utilized, it will cost another $937,000. (Total cost to have the line of credit until the end of June but not utilize it is $1,780,000.) If utilized, costs will increase above that level.

For more information, contact Bill Marx, Chief Fiscal Analyst, at 651-296-7176 or at bill.marx@house.mn