

Capital Expenditure Cash Fund – Summary and questions

Joint Fiscal Office, 01/25/2023

Current Law

- 1. Cash fund created in Act 185 of 2022 (statutory cite: 32 VSA sec. 1001b)**
 - a. Fund to receive any appropriations/transfers made by General Assembly, and any interest accrued by fund balances
 - b. Uses
 - i. Costs pertaining to pre-construction phases of a project
 - ii. Costs for projects with an anticipated lifespan of less than 20 years
 - iii. Costs associated with early redemption of GO bonds
 - iv. Costs for other capital projects receiving an appropriation
 - c. Current funding mechanism – Any debt service savings from early redemption of GO bond debt shall accrue to the CECF

- 2. Cash fund analysis required in Act 185 of 2022**
 - a. Dept. of Finance and Management, in consultation with Treasurer and Joint Fiscal Office, to analyze and make recommendations on:
 - i. Dedicated funding source for CECF
 - ii. For any dedicated funding source recommended, a cost-benefit analysis for why the CECF is best use of these funds and not some other initiative
 - iii. Proposed amendments for how CECF dollars should be utilized
 - b. F&M is finalizing this report – should be out soon

- 3. CECF funding**
 - a. Act 185 C.102 - \$25 million of General Fund surplus revenues at the end of state FY 2022 are transferred to the CECF
 - b. Act 185 C.102 - \$20 million of General Fund surplus revenues at the end of state FY 2022 appropriated to Treasurer to redeem GO bonds prior to maturity – future debt service savings from this redemption to go to CECF starting in FY24
 - i. ****Note**** Treasurer’s office has not yet redeemed the bonds and JFO, on behalf of legislators, has requested an analysis of whether it makes more sense to use that funding to avoid future debt based on today’s higher interest rates rather than pay off older debt

Proposal for 2023 session

- 1. CECF funding mechanism**
 - a. Administration will most likely propose a similar funding stream to a proposal from last session
 - i. 4% of total General Fund appropriations from a prior year minus cost of GO debt service in upcoming year
 - ii. Total would be deposited in CECF

- iii. If this formula were to be adhered to year after year, and CECF balances not fully utilized each year, the balance could grow and reduce future need for bonded dollars
- b. Assumptions that need to be made for analysis of proposed CECF funding construct
 - i. What will General Fund growth be?
 - 1. Current law growth
 - 2. Growth, or contraction, from changes to law (i.e. new taxes, or tax reductions)
 - ii. What level of GO bonding will CDAAC recommend each year?
 - iii. Will future Governors and General Assemblies adhere to the funding construct? (Money not generally diverted elsewhere)
 - iv. Will there be significant new pressures for General Fund, CECF, GO bond dollars? (IT projects, school construction)

Potential questions

- *What would happen in a really good General Fund year?*
- *What would happen in a really bad General Fund year? With proposed allocation construct how would a negative allocation work?*
- *Potential for floor/ceiling on amounts going to fund?*
- *How will CDAAC and rating agencies react? What is more impactful – the fund or the statutory allocation?*
- *Does GF percent allocation need to be in statute? Or annual rate recommendation from CDAAC or someone else?*
- *Who is best suited to administer fund?*
- *Does GO debt service include all funds – General, Transportation, other?*
- *How will the General Assembly deal with CECF spending in legislation?*
 - *Definite players – Appropriations and Institutions*
 - *Potential players – most other committees because GF/CECF spending on capital projects may take that funding out of play for another worthy initiative*
 - *CECF appropriations*
 - *Appropriations in big bill or capital bill?*
 - *Project authorizations in capital bill with appropriations in big bill?*

2. Proposed FY24-25 Capital bill

- a. Administration proposes allocating approx. \$19m of existing CECF balance to capital bill projects in FY24-25, primarily for pre-construction work
- b. Administration proposes a transfer of \$62m from the General Fund to CECF (this transfer most likely to be in big bill) to be focused on:
 - i. Providing state match for IJJA federal dollars
 - ii. Funding certain other capital projects