

March 30, 2001

IMPORTANT!

MEMORANDUM

TO: Presidents
Business Officers
Chief Instructional Administrators

FROM: H. Martin Lancaster

SUBJECT: Potential Cash Shortfall – State of North Carolina

Background

On Tuesday, March 27, 2001, the Division of Business and Finance received an alarming telephone call from the Office of State Budget, Planning and Management (OSBPM). The subject of the call was to provide unofficial notification that the State of North Carolina would begin a complex process for managing the allocation of cash for the remainder of fiscal year 2000-01. Upon receipt of the call, Vice President Kennon Briggs and his staff immediately notified me of the situation, and we all agreed that until we had more accurate information, we would delay notifying you of potential impacts.

On Wednesday, March 28, 2001, a series of questions was developed for the OSBPM by staff about how cash allotments for April would affect community colleges. The OSBPM took these questions under advisement, and met with Business and Finance staff yesterday. Unfortunately, in the interim period, the media elected to run stories that indicated there was uncertainty with respect to the state meeting its payroll obligations. Let me say at this point, as confirmed to me by the State Controller, that there is sufficient cash in the Treasury to meet **all payroll obligations of the state.**

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E-Mail and
Paper Copy

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The purpose of this communication is to share with you all that we know about the state's cash situation at this time. While many uncertainties remain, we have been advised by the OSBPM that additional information will be forthcoming early next week. Immediately upon the receipt of this information, we will forward it to you with the best interpretations that can be made. I also want to point out that the state's cash flow problems are being directed and managed by the OSBPM. The System Office has **absolutely no control over the allotment of cash**. The determination of how much cash we receive is a decision made entirely within the State Budget Office. We are, however, working extremely hard to procure for all colleges every dollar we can.

April Cash Flow Management

This morning we were advised by the OSBPM that the total cash allotment request made by the System Office has been reduced ten percent (10%). This same reduction is being made; we are told, for all state agencies and institutions. You will, therefore, receive 100 percent of your payroll requirements. However, you are going to receive a lesser amount of your request for general expense and equipment (approximately 60 percent).

Toward that end, you absolutely must set aside from your allotment enough cash to meet your anticipated April payrolls. It is anticipated that there will be **no additional allotments for the month of April**. Having set aside your payroll requirements, you should then, with remaining cash, attempt to liquidate all bills on hand, and minimize any additional encumbrances or obligations. You will also want to be extremely careful about incurring additional equipment expenses because there will be no supplemental certifications available for either current operating or equipment.

Cash balances reported on your monthly 112 reports will be processed as outlined in numbered MEMO CC01-053, dated March 2, 2001.

Cash Forecasts for May and June

It is clear to us that the Governor and OSBPM are attempting to slow down all non-personnel spending in order to ensure that enough cash will be available in the Treasury to meet state payroll obligations in both May and June. We understand that it is the Governor's top priority that all payrolls be met first. At this point, given the uncertainty about cash receipts in April (Income Tax payments, Capital Gains taxes, estimated quarterly tax payments, and tax refunds), the OSBPM feels it must slow all non-essential (current expense, equipment) spending by state agencies and institutions, and those receiving substantial state aid payments (community colleges, public schools, etc.).

Other Cash Requirement Issues

There are a number of other issues related to the expenditure of cash. They include House Bill 275 funds, federal funds, and the "College Information System," and bond and other construction funds. Again, we await written notification from the OSBPM, but we can provide some minimal information about what we have been able to determine.

- ❖ House Bill 275 Funds – At this point, we believe colleges will be allowed to cover equipment expenditures from HB 275 funds only because they are considered receipts. This may be a source of funds from which you can liquidate current equipment obligations.
- ❖ Federal Funds – At this point, we believe federal funds may continue to be used, but within the context of your current allotment. Of course, **IF** all federal funds are not spent this year, they will be carried forward by the System Office for reallocation next year.
- ❖ College Information System – At this point, we will be able to continue work on both the Data Warehouse and CIS projects. The rationale for this is, as explained to us, that there are current contractual obligations that must be fulfilled.
- ❖ Construction Funds, Including Bond Proceeds – With respect to the 1993/95 and 2000 Bond proceeds, these funds by law must be used for the purposes for which they were appropriated. Therefore, they are not subject to being withheld. At this point, we believe the 1998 \$250,000/college R&R funds may continue to be spent as well.

Carry-Forward Requests

An additional concern that we have raised with the OSBPM is with regard to the carry-forward of funds to fiscal year 2001-02. This affects your regular equipment funds (920), library books, summer term contracts, and performance budgeting. Staff has been pressing this issue for the past two weeks. The response thus far, and will likely continue to be, that the state's top priorities at this point are meeting payrolls, and at least having a zero balance at the close of the current fiscal period (and not a deficit, as prohibited by the constitution).

The message this sends is obvious. We suspect that carry-forwards will be severely limited, even though they are provided for in law. The OSBPM position is that there must be cash to carry forward any obligation, and cash availability is precisely the dilemma the State faces at this point.

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Therefore, we caution you about both equipment and book carry-forwards at year-end. They are by no means a given. We also are concerned about having cash to carry forward to meet contractual obligations related to the summer term and to reward those colleges that meet performance funding standards. We will not know any more about these items until extremely late in the fiscal year, and then only **IF** cash is available.

Additional Information

As we have tried to do in each and every situation of this nature, we will continue to obtain and distribute the best information available to us in an expeditious manner. As previously noted, we anticipate a written communication early next week from the OSBPM. But we could not, in good conscience, allow you to arrive on the first day of April and presume business as usual. April will be difficult, at best, and May and June are likely to be more so. The staff in Business and Finance is available to assist you in any way possible. We will continue to press for the best possible position for all colleges, recognizing we are swimming against the tide. Thank you for taking on the difficult task that lies ahead.

HML/kdb

pc: Member, State Board of Community Colleges
North Carolina Association of Community College Trustees
Vice Presidents, System Office