State of Connecticut

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Hartford

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The Daily Greenwich
53 Water Street
Norwalk, CT 06854

Dear Editor:

In response to the January 21, 2012 opinion column entitled *Connecticut Still Faces Financial Troubles,* it appears that there may be some confusion over two very distinct types of "borrowing."

The first type – which involves going to external capital markets and pledging the State's credit – can be in the form of capital borrowing, deficit financing, or cash flow borrowing. All require the approval of the Governor, and the General Assembly must explicitly authorize capital borrowing and deficit financing. Simply put, the State Treasurer cannot, under any of these scenarios, unilaterally borrow money from the external markets.

The second type of borrowing is what we refer to as interfund transfers which, as the name suggests, involve moving money already within state accounts from one account to another. This is the type of transaction which drew the scrutiny of the authors of the opinion piece. And while we can understand some of the confusion -- since we ourselves have used the terms "interfund transfers" and "borrowing" interchangeably -- the fact remains that such transfers are part of our arsenal of cash management tools designed to navigate the ebbs and flows of receipts and disbursements.

Even with a balanced budget, differences in the timing of receipts and disbursements are commonplace. Temporary transfers between State accounts may be necessary due to variations in cash balances, and are <u>not</u> the type of borrowing that merited caution on the part of Fitch and other credit rating agencies in 2010.

The suggestion that I "dismissed" the change by Fitch to the State's GO credit rating is inaccurate at best. In mid-2010, Fitch Ratings upgraded Connecticut's GO credit as part of a recalibration of all state and local government credit ratings, and eight weeks later downgraded our credit to a level that was comparable to where it had been since 1997. At the time, the one notch decrease in the Fitch rating brought Connecticut to a level comparable to the credit ratings from two other major credit rating agencies (Moody's Investors Service and Standard & Poor's.) Even though this ratings change did not have measurable effect on the pricing of Connecticut bonds, at the time I went on record in my June 4, 2010 press release that the "announcement by Fitch is a veritable caution sign about the perils of relying too heavily on debt to balance the budget."

In some ways, we still are mending our ways – both in terms of our overall economy and our budget practices. Governor Dannel Malloy has made tangible progress toward improving the State's fiscal stability. The current budget -- which just recently has begun experiencing stress due to new, lower revenue forecasts -- has no one-shot revenue gimmicks and no external borrowing to cover operating expenses.

With that said, despite the factual misstatements in the opinion piece, I wholeheartedly agree with the authors on this important point: the fiscal challenges facing the State are complex and significant, and demand a robust, bipartisan, forthright discussion of how taxpayers' resources can be directed to their highest and best use. The people of Connecticut deserve our most earnest efforts here. I remain committed to working with Governor Malloy and lawmakers to give them just that.

Sincerely,

Denise

Denise L. Nappier
State Treasurer