



DENISE L. NAPPIER
TREASURER

State of Connecticut
Office of the Treasurer

HOWARD G. RIFKIN
DEPUTY TREASURER

August 19, 2010

The Honorable M. Jodi Rell
Governor of the State of Connecticut
State Capitol
Hartford, CT 06106

Dear Governor Rell:

Despite ongoing communications with key members of the legislature overseeing the State's finances about how the State manages cash, there are still misconceptions that the State has policies and practices in place that allow for it to pay for current expenses out of bond proceeds without legislative authority and that the State is about to run out of cash.

I write to you today in order to assure you and the people of the State:

- First and foremost, the current cash position of the State at \$2.1 billion is strong. A copy of the cash projections was provided to the Bond Commission last week.
- Second, we are not currently using bond proceeds to cover operating costs. In fact, the State rarely has engaged in internal borrowing from its bond fund accounts. We last used this process to transfer bond proceeds to the common cash pool for one month in 2009 at which point the monies were returned to their bond accounts. Before that, we had not internally borrowed bond proceeds since 2003.
- Third, all funds received through bond sales for capital projects are ultimately spent on those capital projects in accordance with state statute, budget and financial management practices, bond indentures, and federal tax regulations. On the infrequent occasions that bond proceeds are temporarily transferred to the common cash pool for use in covering operating expenses, they are subsequently returned to the bond fund accounts when other cash balances are restored. The balanced budget requirement in the State Constitution and statutorily required deficit mitigation plans are all designed to bring the State budgets, and therefore its cash position, back into balance as needed. We cannot permanently divert bond proceeds sold for capital projects to finance operating expenditures of the State.

- Fourth, the temporary internal borrowing from bond funds for the common cash pool is conducted in conformance with a long-standing and time-tested policy, and a formal, structured, and documented process. Rather than borrow in external markets when some accounts run short, we first look internally at other accounts that have positive cash balances. This common sense approach is the most efficient way of managing my office's responsibility to finance and honor the State's obligations to municipalities, program beneficiaries, vendors and employees. The concept of inter-fund borrowing, or using cash on hand in one government account to pay bills for another account, is consistent with the best financial management practices of public and private organizations.
- Fifth, internal borrowing from the State's own cash accounts for short periods of time reduces the State's costs and risks. The management of the State's cash on hand is a time-tested, sanctioned, and cost-effective practice for managing fluctuations in the State's flow of cash to and from separate funds. As the State Auditors of Public Accounts noted in 1994 "...inter-fund borrowing is the most efficient and economical method of meeting the State's obligations," and "Inter-fund borrowing within civil list funds is the most efficient and economical means for assuring that every check issued by the State of Connecticut is covered and that all capital projects can continue on a timely basis."
- Sixth, were the State not able to access all sources of cash and to temporarily borrow between several accounts, we would periodically have to borrow money on a temporary basis in the market place. Witness the fact that Massachusetts just the other day had to sell \$1.2 billion in Revenue Anticipation Notes to shore up its cash reserves. Over time that would cost the State considerable additional money in interest payments.

In light of many misconceptions, and, frankly, rank political posturing on the part of others, I am initiating conversations with each of the three major rating agencies to make sure they understand truth from fiction. While no one can argue that the State of Connecticut faces a tough fiscal road ahead with projected budget shortfalls for the next biennium, that reality is not caused and will not be exacerbated by the State's cash management practices. Indeed, our cash and debt management practices are designed to help the State weather difficult times at the least cost and risk.

It is time to get on to the business of addressing the State's fiscal challenges. The focus should be on developing and passing a structurally balanced budget with adequate reserves. Then the cash will take care of itself.

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Recently enacted PA 10-95 requires my office to provide monthly reports to the General Assembly on cash and debt balances. Given the recent events and misinformation that is being produced and spread by others, we recognize that additional communication on these topics would be valuable. Therefore, I have directed my staff to expand on the data required by the legislation to also indicate when any temporary internal borrowing from bond fund balances occurs, the amounts transferred, and when the transferred monies are returned to the bond funds. I will also provide you with copies of the reports.

As always, I am prepared to meet with you or members of your administration to further discuss these issues and practices. I have extended to members of the General Assembly this same offer. In the end, the management of State cash is not and should not become a political matter but is a fundamental piece of proper management of the State's finances. Whatever our economic challenges that are ahead, I am confident that the way the State manages and oversees cash represents the best in fiduciary responsibility.

Sincerely,



Denise L. Nappier
Treasurer

cc: **Bond Commission Members**

Honorable Brenda L. Sisco, Acting Secretary of the Office of Policy and Management
Honorable Nancy Wyman, State Comptroller
Honorable Richard Blumenthal, Attorney General
Honorable Raeanne V. Curtis, Commissioner of the Department of Public Works
Honorable Eileen M. Daily, Senator and Co-Chair Finance Revenue and Bonding Committee
Honorable Cameron C. Staples, Representative and Co-Chair Finance Revenue and Bonding Committee
Honorable Andrew W. Roraback, Senator and Ranking Minority Member Finance Revenue and Bonding Committee
Honorable Vincent J. Candelora, Representative and Ranking Minority Member Finance Revenue and Bonding Committee