

State of Connecticut

DENISE L. NAPPIER
TREASURER



Hartford

March 1, 2012

Joint Committee on Finance, Revenue and Bonding:

The Honorable Eileen M. Daily, Senate Chair
The Honorable Patricia M. Widlitz, House Chair
The Honorable Andrew W. Roraback, Senate Ranking Member
The Honorable Sean J. Williams, House Ranking Member

Appropriations Committee:

The Honorable Toni Nathaniel Harp, Senate Chair
The Honorable Toni E. Walker, House Chair
The Honorable Robert J. Kane, Senate Ranking Member
The Honorable Craig A. Miner, House Ranking Member

Legislative Office Building
Hartford, CT 06106

Dear Mesdames and Messrs.:

Pursuant to C.G.S. Section 3-37(b), as amended by Public Act 10-95, please find attached the monthly report providing certain information regarding the State's cash position and bonding.

The report for January reflects an adequate overall cash balance. During the months of January and February 2012, we temporarily transferred bond proceeds to and from the common cash pool to address mismatches in the timing of receipts and disbursements. These temporary interfund transfers involve moving money already within the state's coffers, from one account to another. Such transfers are being conducted in accordance with a formal and structured process that is part of the State's longstanding and sanctioned practice for managing fluctuations in the State's flow of cash to and from separate funds. These transfers are part of our arsenal of cash management tools designed to navigate the ebbs and flows of receipts and disbursements within the Treasury in an efficient and cost-effective manner.

Since January, interfund transfers have been the subject of several inaccurate opinion articles and letters to the editor authored by certain members of the legislature. In these misleading pieces, the authors claimed that the Treasury "borrowed" money in December to pay the State's daily operating expenses, and attributed these transfers to what they described as the State's excessive borrowing practices and high debt burden which, in turn, threatened and/or led to the State's credit downgrade.

I want to clearly emphasize that internal transfers are quite different in structure and cost from borrowing in the capital markets when the State utilizes its credit to fund capital projects, deficit financings, or cash-flow borrowing. All such external borrowing requires the approval of the Governor, and the Connecticut General Assembly must explicitly authorize bonding for capital projects and deficit financings. Simply put, the State Treasurer cannot unilaterally borrow money from the capital markets.

There is no causal connection, *per se*, between interfund transfers and per capita debt burden or credit rating risk. I can assure you, however, that there is a clearer potential for headline risk associated with misinformation concerning the State's fiscal condition. Either the legislators who wrote the flawed opinion pieces do not understand the nuances of how we manage the State's cash, or they chose to purposely mislead the general public for political ends. In any event, as duly elected representatives of the citizens of this State, I believe we share an obligation to be fully informed about our government's fiscal matters, and that we should avoid perpetuating half-truths which could erode investor confidence and, ultimately, cause the State to pay more debt service in order to meet its financial obligations.

Governor Dannel Malloy has made tangible progress toward improving the State's fiscal stability, and the current budget has no external borrowing to cover operating expenses. However, we still are mending our ways – both in terms of our overall economy and our budget practices. At present, we are experiencing some fiscal uncertainty over new, lower revenue forecasts for the current and ensuing fiscal years. Given that, our fellow citizens deserve to have our most earnest efforts directed to finding plausible solutions to the fiscal challenges facing our State that would, among other things, mitigate any prospects of having to borrow from the capital markets for cash flow purposes.

As always, my office would be pleased to meet with any member of the General Assembly interested in having a forthright, constructive dialogue about the State's fiscal outlook and our cash management practices.

Sincerely,



Denise L. Nappier
State Treasurer

Attachment

cc: The Honorable Dannel P. Malloy, Governor
Members of the Connecticut General Assembly
Mr. Alan Calandro, Director, Office of Fiscal Analysis
Mr. Michael Murphy, Section Chief, Office of Fiscal Analysis
Ms. Linda Miller, Principal Analyst, Office of Fiscal Analysis

State of Connecticut - Office of the Treasurer
Monthly Report Prepared Pursuant to CGS Section 3-37 (b)
Report for the Month of January 2012, dated March 1, 2012
(In millions)

| Week Ending Available Cash Balance | January 7, 2012 | | January 14, 2012 | | January 21, 2012 | | January 28, 2012 | |
|--------------------------------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Common Cash Pool ⁽¹⁾ | \$67.1 | 4.7% | \$60.7 | 4.7% | \$376.1 | 22.0% | \$382.8 | 22.7% |
| GO Bond STIF Accounts ⁽²⁾ | \$699.6 | 48.5% | \$575.8 | 44.4% | \$625.7 | 36.6% | \$625.7 | 37.1% |
| STO Bond STIF Accounts | \$473.8 | 32.8% | \$466.9 | 36.0% | \$457.5 | 26.7% | \$452.4 | 26.8% |
| Clean Water Bond STIF Accounts | \$134.6 | 9.3% | \$134.6 | 10.4% | \$129.3 | 7.6% | \$129.3 | 7.7% |
| Transportation Fund STIF Account | \$53.2 | 3.7% | \$43.6 | 3.4% | \$107.6 | 6.3% | \$81.8 | 4.9% |
| Misc. STIF Accounts | \$14.4 | 1.0% | \$14.4 | 1.1% | \$14.4 | 0.8% | \$14.4 | 0.9% |
| Total Available Cash* | \$1,442.8 | 100.0% | \$1,296.0 | 100.0% | \$1,710.6 | 100.0% | \$1,686.4 | 100.0% |

(1) The Common Cash Pool represents the state's operating cash.

(2) Bond proceeds were temporarily transferred to and from the Common Cash Pool during January and February 2012.
STIF = Short-Term Investment Fund

Components of Common Cash Pool⁽³⁾

| | January 7, 2012 | January 14, 2012 | January 21, 2012 | January 28, 2012 |
|--|-----------------|------------------|------------------|------------------|
| Short-Term Investment Fund | \$0.6 | \$0.9 | \$0.6 | \$0.5 |
| Short-Term Investment Fund Plus | \$20.6 | \$20.5 | \$20.5 | \$20.4 |
| Extended Investment Portfolio | \$6.1 | \$6.1 | \$6.1 | \$6.1 |
| Community Bank & Credit Union Initiative | \$10.0 | \$10.0 | \$10.0 | \$10.0 |
| Bank Concentration Account | \$29.9 | \$23.2 | \$338.9 | \$345.8 |
| Total Common Cash Pool* | \$67.1 | \$60.7 | \$376.1 | \$382.8 |

(3) Balances are allocated daily between investment and bank options based on relative interest and earnings credit rates and projected cash flows.

Authorized and Unissued Bonding by Program as of January 31, 2012

| Bonding Program | Authorized by Legislature but Unissued | | Authorized by Bond Commission but Unissued | | 2012 Fiscal Year To Date Issuance | | New Bond Issuance Assumptions For the Balance of 2012 Fiscal Year | |
|------------------------|--|---------|--|---------|-----------------------------------|---------|---|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| General Obligation | \$3,616.0 | | \$1,559.1 | | \$550.0 | | \$555.0 | |
| Special Tax Obligation | \$3,002.3 | | \$2,502.4 | | \$221.2 | | \$300.0 | |
| Clean Water Fund | \$595.2 | | \$361.8 | | \$0.0 | | \$0.0 | |
| UConn 2000 Program | \$96.0 | | \$96.0 | | \$179.7 | | \$0.0 | |
| Total | \$7,309.5 | | \$4,519.3 | | \$950.9 | | \$855.0 | |

Note: The State of Connecticut has not issued any other debt instruments and does not currently have a commercial paper program or line of credit outstanding. The Clean Water Fund bond sale has been delayed until the next fiscal year.

* Details may not add due to rounding.