

State of Connecticut

DENISE L. NAPPIER
TREASURER



Hartford

July 31, 2009

The Honorable M. Jodi Rell, Governor
Executive Office of the Governor, State Capitol
210 Capitol Avenue
Hartford, CT 06106

The Honorable Donald E. Williams, Jr., Senate President *Pro Tempore*
Legislative Office Building Room 3300
Hartford, CT 06106-1591

The Honorable Christopher G. Donovan, Speaker of the House
Legislative Office Building Room 4106
Hartford, CT 06106-1591

The Honorable John McKinney, Senate Republican Leader
Legislative Office Building Room 3400
Hartford, CT 06106-1591

The Honorable Lawrence F. Cafero, Jr., House Minority Leader
Legislative Office Building Room 4200
Hartford, CT 06106-1591

Dear Governor and Gentlemen:

Now that the General Assembly has convened in special session, I am certain your collective attention is directed to addressing the significant fiscal challenges facing our State for the next biennium and beyond. As you deliberate over the myriad of complex issues, I write to share with you steps that I have taken to shore up the State's cash position, advise you of the timing requirements for the passage of legislation authorizing the issuance of Economic Recovery Notes (ERNs) for the 2009 deficit, and caution you regarding the potential negative impact on the State's credit rating associated with failure to pass a balanced budget addressing the \$8.55 billion projected deficit for the next biennium.

Earlier this year, I took the necessary steps to lay the groundwork for a multi-tiered, short-term borrowing strategy in order to fund cash flow needs for current operations. We accelerated the issuance of \$580 million of bonds (also known as "bond anticipation notes") in April of this year. Additionally, in June we closed on a revolving line of credit established with a syndicate of four major financial institutions which will afford us access to upwards of \$580 million.

July 31, 2009

Page 2

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In addition to these steps to enhance the State's cash position, I understand that there is consensus surrounding the need to issue up to \$1 billion of ERNs for the 2009 deficit. It is in connection with that possibility that I am alerting you to critical issues relating to the timing of the passage of legislation authorizing any such issuance. Specifically, ERNs may be issued for any year in which there is a budget deficit. Toward that end, enabling legislation should be passed before the State Comptroller finally certifies the deficit for Fiscal Year 2009, normally on September 1, 2009. Otherwise, there will be an automatic transfer of the Budget Reserve Fund to address the 2009 deficit.

As matters stand right now, the legislature has a narrow window of opportunity to avail itself of the Budget Reserve Fund in order to mitigate the deficit for the current (2010/2011) biennium. This can be accomplished by either adopting a biennial budget with ERN authorization or, in the absence of a budget, authorizing the issuance of ERNs.

With that said, I must take this opportunity to register my concern not only with the timing of the passage of a budget, but also the structural integrity of that budget as well. We have seen that a significant delay in adopting a budget, in and of itself, can create uncertainty amongst bond investors and could adversely impact a state's credit rating. Earlier this week, one of the major rating agencies, Fitch, downgraded the State of Illinois by two notches from "AA-" to "A". Fitch cited several factors as grounds for this action, among them: "the significant scope of the budgetary problem,...the failure of the state to enact a budget that fully addresses its current spending needs and its large structural budget deficit." (See attached article.) If Connecticut's ratings were downgraded, it would increase our State's cost of borrowing and limit the market for our bonds, and could have implications for the current biennium and beyond.

I know you are mindful of the magnitude of this economic downturn, the challenges it has created for Connecticut, and that projections going forward are even more grim. As you negotiate the budget for the next biennium, I urge your continued caution in the use of one-shot revenue sources, and encourage those measures designed to strengthen and sustain the State's financial position over the long haul.

In closing, I stand ready to provide whatever resources at my command in order to facilitate a timely and productive resolution of these most pressing matters.

Sincerely,



Denise L. Nappier  
State Treasurer

Enclosure

cc: The Honorable Toni Harp, Senate Chair, Appropriations Committee  
The Honorable John Geragosian, House Chair, Appropriations Committee  
The Honorable Dan Debicella, Senate Ranking Member, Appropriations Committee  
The Honorable Craig Miner, House Ranking Member, Appropriations Committee