the ct mirror
10 YEARS of trusted journalism.

Wooden: CT’s cash pool is twice as strong as early days of last recession

MONEY - by KEITH M. PHANEUF - MARCH 18, 2020

The coronavirus may have slammed the brakes on Connecticut’s economy, but state government’s cash flow — and therefore it’s ability to respond — remains very strong.

State Treasurer Shawn T. Wooden reported that the state’s common cash pool has double the resources it had when Connecticut entered the last recession and should face no major challenges for at least the next six months.

And even should a prolonged economic downturn develop, the state’s access to bond and other borrowing markets also remains strong, the treasurer said — a sign of fiscal stability well down the road.

“Our current numbers show that, with the strong health of the state’s Common Cash Pool, we are more prepared to deal with the economic impacts of the pandemic than we were in the last recession,” Wooden told the CT Mirror Wednesday.

As of March 14, the common cash pool held nearly $3.5 billion — double what it had in October 2008 when Connecticut was plunging into The Great Recession, according to the treasurer's office.

Weekly disbursements from the common cash pool averaged $751 million last fiscal year.

If the state's budget is Connecticut's spending plan and the rainy day fund its savings account — the pool is all cash resources the state is holding right now — even those dollars it has plans to spend.

And Connecticut has more financial flexibility to borrow more cheaply than many other states can. That's because it allows the treasurer to transfer bond proceeds — temporarily — to help pay bills, make payroll or cover other operating expenses.

Connecticut borrows funds for capital projects several times annually by issuing bonds on Wall Street. The rates on this type of borrowing normally are lower than if the state secures a line of operating credit from a bank or other commercial lending institution.

Once available bond proceeds are considered, the total available cash on hand rises even higher, from $3.5 billion to nearly $4.4 billion.

But if Connecticut had to pursue non-bonding options to borrow funds, Wooden said, the state is well-positioned.

"The Treasury has many bank relationships that could be called on for this service and we have developed good credit documents that could be used again, if needed," Wooden said, noting that the federal government announced a short-term borrowing option to help large financial institutions make credit available. "Of course, we don't have a crystal ball, but government and municipal credits tend to hold up pretty well in times of crisis."

Gov. Ned Lamont recently extended certain business tax filing deadlines, and hinted the administration would consider extending the April 15 state income tax deadline as well. Wooden said his assessment of the state's healthy cash position, both now and over the next six months, takes into account possible delays in tax collections.

Meanwhile, municipal advocates say the state's healthy cash position is crucial because cities and towns — while not necessarily on the brink of insolvency — aren't all as well-off.

Hedge funds and other investors began dumping municipal bonds earlier this month, seeking equities less vulnerable to the COVID-19 crisis. After high demand for local government debt for more than a year, investors began a sell-off that some market experts said was worse than that of the last two recessions combined.

> "Our current numbers show that, with the strong health of the state's Common Cash Pool, we are more prepared to deal with the economic impacts of the pandemic than we were in the last recession."
>
> **Connecticut Treasurer Shawn T. Wooden**

Wooden is hopeful that "aggressive measures by the U.S. Treasury and Federal Reserve" will improve the bond market for municipalities and states. But in the meantime, towns aren't sure how cheaply they can borrow money.

In addition, both the Connecticut Council of Small Towns and the Connecticut Conference of Municipalities expressed concerns this week about municipal tax collections in the coming months.

The staggering economy could lead more homeowners and businesses to default on their property taxes this summer. And if the crisis continues, general tax collections and other related town hall functions could be impeded.

“I know towns are very concerned about their local businesses and residents and how this public health crisis is affecting them,” said Betsy Gara, COST’s executive director.

And if an anticipated state economic assistance package from the Lamont administration includes some local tax assistance — such as waiving penalties for delinquent taxpayers — it’s important that the state ensure municipalities budgets are healthy as well, Gara said.

COST and CCM also have been pressing the Lamont administration to release $166 million in non-education aid — much of which has been delayed for months. The administration has said it is working to get communities those funds soon.