

# State of Connecticut



DENISE L. NAPPIER  
TREASURER

Hartford

December 3, 2013

The Wilton Daily Voice  
Wilton, CT 06897

Dear Editor:

I write in response to a letter by State Rep. Gail Lavielle, featured in the November 5<sup>th</sup> edition of *The Wilton Daily Voice*. In that letter, she raised concerns over the recent issuance of bonds to pay a portion of the State's GAAP deficit and to restructure Economic Recovery Notes – both of which were approved by the Connecticut General Assembly during its last session. I believe Rep. Lavielle left out some important facts, and that the public deserves a fuller description of these transactions.

Rep. Lavielle says the issuance of the GAAP conversion bonds is “like taking cash out on a credit card to pay the bills.” In fact, the bills that created the State's GAAP deficit were paid long ago, which has resulted in a negative balance for the State's General Fund for GAAP purposes. What that has meant, in practical terms, is that we have had to use cash balances of other funds to cover that negative balance for many years.

By issuing bonds, the proceeds will be used to help cover the negative cash balance in the General Fund. These proceeds can never be used to pay a bill or be treated as revenue because of a specific covenant included with the bonds – a promise even more ironclad than state statute. And that really is the essential element of this more disciplined approach to addressing this structural GAAP deficit: a plan is in place that has already cut the GAAP deficit in half, with the remaining repayment “deemed appropriated” over the next 15 years. So rather than leave it up to the legislature to decide whether to pay down the GAAP deficit in any given budget cycle, there is a long-term structured plan to do so.

Her statement that “this fills up the state's coffers, but it doesn't strengthen its cash position,” just doesn't make sense. The strength of our cash position is a direct function of what's in our coffers. The fact is that this bond issue has already significantly improved the State's cash position, and we can now cancel a stand-by line of credit that, thankfully, we never needed to draw upon.

In addition, establishing a comprehensive plan to eliminate the GAAP deficit sends a message to the credit rating agencies and others that Connecticut is serious about fixing a chronic long-term problem. Moody's Investors Service specifically cited our state's commitment to

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eliminating the GAAP deficit as a “credit strength,” and described the GAAP proposal as a “significant accomplishment” during the last legislative session.

Finally, Rep. Lavielle questions whether it was “responsible” to employ a variable rate structure in extending certain Economic Recovery Notes. The real answer can be found in the current markets: we took advantage of very low short-term interest rates that are available in today’s market. The variable rate structure came at a lower cost to the State than fixed rate obligations. And, because the variable rate bonds are callable at any time, the State has the option to pay the ERNs off early and, if interest rates rise, the State can quickly convert them to fixed rates. Future interest rate risk is mitigated by the fact that the bonds will be paid over just three to four years, and don’t have nearly the same risks of a variable rate structure over a longer term.

In closing, I share Rep. Lavielle’s concerns over the State’s fiscal health and overall discipline. That is why I believe these two transactions were optimally structured so that the State can meet its obligations in a cost-effective and prudent manner.

Sincerely,



Denise L. Nappier  
State Treasurer

## **Letter: Wilton Rep Critical of \$900 Million in New State Borrowing**

by Gail Lavielle Opinion 11/05/13

Letter: Wilton Rep Critical of \$900 Million in New State Borrowing  
WILTON, Conn. -- *The Wilton Daily Voice* accepts signed letters to the editor.  
*Send letters to [wilton@dailyvoice.com](mailto:wilton@dailyvoice.com).*

State Rep. Gail Lavielle, a member of the General Assembly's Appropriations Committee, expressed concern about the state's issuance of nearly \$900 million in new bonds. According to a statement from State Treasurer Denise Nappier, Connecticut issued \$560.4 million in bonds to fund the state's GAAP conversion deficit over a 15-year period and another \$314.3 million to pay off outstanding operating debts dating from 2009. Nappier noted that the \$560.4 million issue would improve the state's cash position enough to allow it to cancel its \$300 million emergency line of credit.

To the editor:

Borrowing to pay off the GAAP deficit and canceling the state's credit line is simply replacing one debt with another. It's like withdrawing cash on a credit card to pay a bill. You pay the bill, but you're still in debt to the credit card company, and you owe interest as well. This fills up the state's coffers, but it doesn't strengthen its cash position.

The original plan proposed by the governor in 2011 was to set aside an appropriation of \$80 million each year for 15 years. Now, because the state has spent too much money to do that, it's piling up debt instead, and it's incurring about \$200 million in interest costs that will be charged to taxpayers over the life of the bonds. The obligation to pay off the GAAP deficit is essentially a debt that the state owes itself. Borrowing money, with the attendant interest costs, to pay it off is not a smart way to manage the state's finances. Nor is it likely to satisfy the rating agencies, which have expressed concern about the state's level and cost of debt, which Connecticut's financial situation is improving.

The bonds in the \$314.3 million issue are a new type of security called 'Variable-Rate Remarketed Obligations' (VRO). While their initial rate is a low 0.5 percent, the rate can vary over the life of the bonds. This exposes the state, and taxpayers, to a great deal of uncertainty at a time when the nonpartisan Office of Fiscal Analysis is already predicting a deficit of \$712 million for fiscal 2015. Taking this risk does not seem responsible."

Gail Lavielle

State Rep. Gail Lavielle, a Republican, represents Wilton, Norwalk and Westport in the 143 Assembly District. She is Ranking Member of the General Assembly's Commerce Committee and a member of the Appropriations Committee.