

State of Connecticut

DENISE L. NAPPIER
TREASURER



Hartford

March 5, 2009

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

Dear Governor Rell:

The current economic downturn and the crisis in the financial markets pose significant challenges for our State and, as you well know, for the State's budgets for the current year and next biennium. Based upon current projections, we believe there will be sufficient cash on hand to meet our financial obligations through the end of this fiscal year. However, given the enormity of what lies before us and the high degree of uncertainty, I believe it is prudent to take the necessary steps now to prepare for the potential need to borrow to meet any cash flow needs over the next several years.

Exactly when, and if, such borrowings will be needed depend on a variety of changing factors, including:

- The duration and severity of the current economic downturn;
- Magnitude of the current year and future budget deficits;
- Size and timing of federal stimulus funding;
- Timing and nature of any deficit mitigation plans; and
- Timing and nature of budget solutions for the next biennium.

You may recall that the last occasion such cash flow borrowing was necessary was in the early 1990s, when our borrowing requirements approached \$1 billion and the General Fund budget was almost \$6 billion. The budget now stands at three times that size at \$18 billion, thus requiring a multi-tiered plan that would enable us to access a significantly larger amount for cash flow purposes.

The plan, the details of which are set forth in the attached document, begins with the acceleration of the issuance of up to \$700 million of bonds, or bond anticipation notes, for capital projects in Fiscal Year 2009. This step will require Bond Commission approval. While this issuance would enhance the State's cash position, it is still not considered a "cash flow" or "temporary borrowing."

The next steps of the plan would require the implementation of "temporary borrowings" pursuant to Section 3-16 of the Connecticut General Statutes involving (1) the draw down on committed revolving lines of credit established with major financial institutions; and (2) the issuance of temporary notes.

My staff is available to meet with your staff to review the components of the plan in more detail.

As you can imagine, securing up to \$1 billion in lines of credit for the State in this market is a challenging task. However, we have been successful in attracting several indications of interest from a variety of banks which serve my office. In that regard, I intend to issue a Request for Proposal to those banks shortly to begin the process of establishing the terms and conditions for the lines of credit and to select a lead bank for a possible syndication of the credit facility.

Pursuant to Section 3-16 of the Connecticut General Statutes, I am authorized to borrow funds on a temporary basis with your approval. At this time, I formally request your approval pursuant to Section 3-16 of the Connecticut General Statutes to incur such temporary borrowings from time to time on behalf of the State on such terms and in such amounts as I shall determine. Please provide your approval of such borrowings by countersigning a copy of this letter in the space provided below and returning such countersigned copy to me.

Let me reemphasize that my office has and will continue to proceed judiciously, and will manage the State's cash in such a way as to reduce any future cash flow borrowing that may become necessary. This approach includes, among other measures, maintaining a high level of liquidity (currently at 69% of available investments), and reducing the State's investments prior to engaging in short-term borrowing.

Please feel free to call on me should you have any questions or require additional information.

Sincerely,

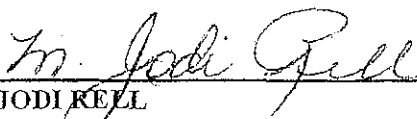


Denise L. Nappier
State Treasurer

Enclosures

**APPROVAL OF THE GOVERNOR PURSUANT
TO C.G.S § 3-16**

**Pursuant to Section 3-16 of the Connecticut
General Statutes, I hereby approve the
borrowings from time to time by the Treasurer on
behalf of the State as described above on such
terms and in such amounts as the Treasurer shall
determine.**



M. JODI KELL
Governor
State of Connecticut
Date: MARCH 6, 2009

Summary of the Office of the Treasurer's Plan for Funding Any Cash Flow Borrowing Needs of the
State of Connecticut

Goal

The goal of this plan is to provide a variety of sizable sources of low cost funding which complement each other. This plan also includes committed sources of external funding which are independent of the financial markets to ensure continued access to capital even during periods of potential market disruption.

Recommendation

Step 1 – “First Line of Defense”

Issue \$700 million of Bond Anticipations Notes (BANS) or Accelerate GO Bonds

This action requires Bond Commission Approval

Discussion - The State has the flexibility to issue GO bonds already authorized by the Legislature and approved by the Bond Commission for capital and other projects in advance, on a current basis, or in arrears of the expenditure of bond proceeds. We are currently issuing GO bonds on a current basis. A first step to enhance the State's cash liquidity is to accelerate the issuance of GO bonds somewhat to advance funds to the State. This is not a “cash flow borrowing,” per se, and can be completed as long as there are sufficient legally authorized projects for issuance and Bond Commission approval for the sale of bonds.

Plan - Issue up to \$700 million of GO bonds earlier, or \$700 million of BANS (or some combination of GO bonds and BANS), in advance of next fiscal year's planned GO bond issuance to easily enhance the State's cash position. Overall, the State plans to issue \$1.2 billion of GO bonds in each of the next two fiscal years. We have already requested authority for \$700 million of GO bonds for the next Bond Commission, which would normally not be issued until next fiscal year.

The current thinking is to issue these as BANS (not Bonds) to keep the costs as low as possible and to have two \$350 million tranches outstanding at all times until this period of fiscal pressure passes (a couple of years). We may issue these BANS for one or two years to eliminate the need to roll them periodically, depending on market conditions. The BANS would be repaid with the issuance of bonds.

Step 2 – Secure up to \$1 Billion of Committed Bank Lines of Credit

This action requires approval by the Governor

Discussion - Credit is in short supply in today's market and securing committed credit from banks is a very challenging task. However, after many calls and inquiries to major banking institutions, we have successfully secured tentative commitments from several banks totaling \$800 million (JP Morgan, Bank of America, USBank, Wachovia/Wells Fargo, and State Street; and possibly TD BankNorth and Goldman Sachs – others may be added as well). The total of \$800 million would provide the State with an excellent, secure source of funding. We would ideally like to get to \$1 billion and are continuing to work toward that level.

Having committed bank lines will be very helpful for accumulating borrowings prior to a note issue. The lines of credit are expected to be for a one year term with planned renewals, but we are also requesting multi-year commitments. These lines will be available without regard to any market disruption and provide a good, committed source of borrowing.

Plan – We plan to have these banks compete to be the lead of a syndicate based on terms and price through the issuance of an RFP to the banks. This will allow us to have one agreement for up to \$1 billion of credit and all draws would be allocated ratably among the banks. We will also keep the option open for separate agreements should that be more advantageous.

Step 3 – Temporary Notes as Needed

This action requires approval by the Governor

Discussion and Plan - Issue Temporary Notes as needed to take out amounts accumulated on bank lines or in addition to funds available under bank lines. These notes would generally be repaid by new Temporary Notes, or by the issuance of longer term Economic Recovery Notes (ERNs) once the size of any budget deficit is certified and legislation is passed authorizing the issuance of ERNs. If the cash flow borrowing becomes several billion dollars, we expect most of the total borrowing would be using these Temporary Notes.

We plan to use the bank lines of credit as a defense in case there are any market access problems with rolling notes. We will strategize to have availability on the bank lines of credit in excess of any maturing notes in any month. This approach should ensure continued access to cash even if a market disruption threatens the rolling of a note issue.

Other Actions

Commercial Paper Program

This action requires approval by the Governor

We will continue to investigate the implementation of a Commercial Paper (CP) program backed by bank liquidity or Extendable Commercial Paper which does not require bank backing and can be extended for a fixed period of time if needed. For normal CP we could utilize the established Bank Lines of Credit (discussed above) to back up the CP.

Economic Recovery Notes

In addition to the short term borrowing steps outlined above, the use of ERNs may be necessary and would require approval by the General Assembly.

If budget deficits are realized in any year, it is possible that Economic Recovery bonds could be authorized as needed and would be repaid over a five- to seven-year period. The proceeds of ERNs would be used to pay down any cash flow borrowing incurred to temporarily fund a budget deficit. ERNs can generally only be issued once the Comptroller certifies the deficit and legislation is passed authorizing the ERNs. However, given the possibility of several years of budget deficits, we could be issuing ERNs to permanently finance the prior year's deficit while we continue to incur cash flow borrowing for what may be a new cash flow deficit for the current fiscal year.

Result

The result of this plan is to secure a multi-layered and diverse source of funding for cash flow borrowing needs providing capability for several billion dollars of borrowing:

- \$700 million in accelerated GO bond (or BAN) issuance for authorized projects
- Up to \$1 billion of committed lines of credit from banks

- Ability to issue Temporary Notes in larger blocks – not limited
- Ultimate “take out” would be the issuance of Economic Recovery Notes in the amount of any fiscal year’s “budget deficit” to be repaid over five to seven years