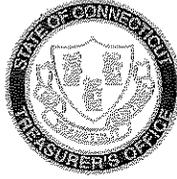


State of Connecticut

DENISE L. NAPPIER
TREASURER



Hartford

February 20, 2015

VIA ELECTRONIC MAIL

The Honorable Dannel P. Malloy
Governor
State of Connecticut
State Capitol
Hartford, CT 06106

Dear Governor Malloy:

I recognize your unenviable task of putting together a biennial budget in the face of extraordinary, ongoing fiscal challenges, and commend your efforts to balance the many compelling competing demands. Your proposed budget, however, is inconsistent with my office's estimates for the State's debt service requirements. Budgeting for fixed costs, such as principal and interest on bonds, is a sound fiscal practice, and failure to do so can become a concern for rating agencies and investors alike.

A key difference is that your proposed budget, as submitted, projects bond premiums before these amounts have been realized. Your proposed budget reflects general fund debt service expenditures that are \$152.7 million and \$172.5 million below the current estimates of my Office for Fiscal Years 2016 and 2017, respectively, which, taken together, represents a reduction of \$325.2 million, or approximately 7.6%. Fortunately, bond sales results this spring are likely to narrow these differences before the final resolution of the next biennial budget.

While my Office does have a track record of coming in under budget for debt service -- due to our careful, prudent management of bond sales, continuation of historically low interest rates and bond premium -- the budgeting of potential budget savings before they are realized is equivalent to counting one's chickens before they hatch. I am concerned that even if one were to accept budgeting for bond premiums not yet received, the adjustments made are too aggressive.

We both well understand that debt service is deemed appropriated by statute, and that bondholders will be paid without regard to the level included in the budget. However, the consequences of having to go before the Finance Advisory Committee to restore a deficiency in the debt service account would only add fuel to the State's fiscal challenges, and may harm its reputation among bondholders and the investment community at large.

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Going forward, we expect interest rates to rise. It is not a matter of if, but when. Currently, it looks as though the Federal Reserve's tightening of monetary policy is likely to occur this fall, which will have a direct impact on debt service costs and savings in the debt service budget that have been realized in the past. That is why it is imperative that we budget for debt service carefully, cautiously and with full recognition of the payments we have promised to make.

I look forward to working with you and your staff to balance these factors and determine the minimum amounts that need to be restored given our overall fiscal situation.

Sincerely,



Denise L. Nappier
State Treasurer

Cc:

Joint Committee on Finance, Revenue and Bonding:

The Honorable John W. Fonfara, Senate Chair
The Honorable Jeffrey J. Berger, House Chair
The Honorable L. Scott Frantz, Senate Ranking Member
The Honorable Christopher Davis, House Ranking Member

Appropriations Committee:

The Honorable Beth Bye, Senate Chair
The Honorable Toni E. Walker, House Chair
The Honorable Robert J. Kane, Senate Ranking Member
The Honorable Melissa Zioban, House Ranking Member