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OP-ED
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Borrowing Now A Prudent Step Toward Managing Deficit

Even as Connecticut's elected representatives struggled in recent years to achieve the balanced budget that is required by law, cash balances have suffered — especially with the depletion of the Rainy Day Fund. At the treasurer's office — where we have no say in budget decisions but must ensure that there's enough money on hand to pay the bills — we do our best to manage the timing disconnect between the arrival of revenue and the payment of bills, and to maximize limited resources while teetering on a cash-flow fiscal cliff.

Occasionally, it has been too close for comfort. That was the case a few months ago, when the treasury sought and received approval to establish a stand-by line of credit , if needed. So far, we have not dipped our toe in those waters. But the cash flow constraints have mounted and something has to give — which is to say that we cannot afford to keep kicking the proverbial cash can down the road. We must consider the full range of fiscal tools available to address our state's fiscal dilemma, including borrowing.

Why borrow to address these issues?

Interest rates have never been lower, and may not be this low again in our lifetime. If borrowing ever were to make sense, it makes sense now. To take the responsible use of debt off the table, when it is most attractive, would be short-sighted and unwise.

This is not to suggest that state spending should not be reduced or programmatic cuts, where appropriate, should not be made. First-rate fiscal policy and efficient management suppose both. But debt is also a sound financial tool — to be used when conditions are right, not willy-nilly without sufficient diligence and evaluation of alternatives. Debt can be a worthwhile component of a far-reaching and wide-ranging fiscal solution.

Yes, Connecticut has considerable debt. Unlike virtually every other state, however, Connecticut does not have county government, which means the debt burden falls more heavily on the state. When state and local debt levels are combined, Connecticut is in the middle of the pack nationally, at number 25. Certainly not worth crowing about, but not the three-alarm fire that some rhetorically ignite.

As the public finance arm of state government, it is appropriate for the treasury to urge that fiscal decisions be made not only through the prism of the biennial budget, but also mindful of

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the long-term fiscal stability and predictability that everyone — from businesses to homeowners to ratings agencies — agrees is desirable. If used strategically and with precision to directly address structural challenges, borrowing can — especially at current rates — be a sound and effective tool.

In accordance with Gov. Dannel P. Malloy's order, the state budget is to switch to Generally Accepted Accounting Principles, known as GAAP, beginning in 2014. It is long overdue. Unfortunately, that form of accounting would show a budget deficit of more than $1 billion. The law provides for this deficit to be paid down over 15 years by using surplus funds, which is unlikely as a surplus is not on the horizon. But abandoning GAAP would be a mistake, not only this year, but for ensuing years.

Borrowing funds at today's extraordinarily low rates to begin rebuilding cash balances by accelerating the funding of a significant portion of the accumulated GAAP deficit — no more than 50 percent — is the best option. Including a commitment to bondholders through a bond covenant that: 1) the remaining GAAP deficit will be funded through annual appropriations, not speculative surplus, over the next 15 years; and 2) the proceeds of the bonds can never be treated as revenue or used for a budget appropriation. These are are essential components of the plan.

Debt repayment requires discipline and a firm commitment. A bond covenant eliminates wiggle room and provides the certainty that the state will not only pay back what is borrowed, but that it will stick to a timetable for eliminating the remaining GAAP deficit. Additional sound steps should be taken, including the re-establishment of a meaningful budget reserve (Rainy Day Fund).