

July 29, 2011



## Debt Crisis: Vermont ready for worst

by Nancy Remsen, Free Press Staff Writer

State Treasurer Beth Pearce says Vermont is as ready as it can be to ride out the repercussions if the federal government defaults on paying debt — should it come to that Tuesday.

"We are analyzing our cash flow on a daily basis, and we do believe we have the short-term and medium-term liquidity to get us through a crisis," Pearce said. Liquidity means access to cash to pay bills.

Vermont expects to receive about \$1.6 billion from federal government over the course of the current budget year for dozens of programs, including Medicaid, which is subsidized health care for low-income residents, and transportation projects.

Pearce said the state expects about \$150 million from the federal government in August, including a \$53 million payment for Medicaid on Aug. 1.

State officials expect the Medicaid payment will arrive Monday — before the U.S. Treasury would begin holding back federal payments should Congress fail to reach agreement on raising the federal government's borrowing limit.

More than half the state's transportation budget comes from the federal government. Still, Transportation Secretary Brian Searles said he expected the state agency could cover the federal share of project costs through the end of this construction season, if necessary. He said he didn't expect to halt work on any jointly funded projects.

"We would spend state funds to the extent that it is prudent," Searles said. "It would be a matter of months, not weeks that we could continue."

Tapping state dollars would be an option only if the federal government didn't have personnel to process or funding available to reimburse Vermont for already approved expenses, Searles said.

A week ago, Finance Commissioner Jim Reardon advised managers throughout state government to draw down by today all the federal dollars they were due.

"So in the near-term," he said, "we should have sufficient cash flow so there is not a disruption to services and programs."

Labor Commissioner Annie Noonan confirmed, "We drew down as much as we could."

Unemployment checks, for example, wouldn't be affected if the federal government couldn't pay all its bills next week, Noonan said.

"The checks are issued here in the state," she said. "We have enough money."

The state issued \$1.7 million in unemployment checks last week and has \$36 million in the bank to cover 18 more weeks, Noonan said.

Noonan worries about other programs at the Labor Department that receive significant funding from federal sources, including the work force investment program, labor market statistics and occupational health and safety.

"We are certainly watching this with baited breath," Noonan said.

### **Other impacts?**

National analysts have suggested shutting off the federal funding spigot could impact colleges and universities that receive federal grants and student aid dollars, and hospitals that receive Medicare payments for care delivered to the elderly.

At the University of Vermont , however, Richard Cate, vice president for finance and administration, predicted, "Any problem would be short-term, and we do not have a cash flow problem, so we do not have major concerns."

Mike Noble, spokesman for Fletcher Allen Health Care, said hospital officials hadn't seen any information about the priorities the U.S. Treasury would have for paying debts so it was hard to predict an impact.

### **Rating reprieve**

Vermont has caught a break from Moody's Investor Services, a credit rating agency.

Several weeks ago, officials at Moody's advised 15 states with the highest credit rating — including Vermont — that their status would come under review if the federal government defaulted.

A rating downgrade, if that were the result of a review, would mean increased borrowing costs. Vermont has scheduled a bond sale in mid-October and wants to maintain its Triple A rating in order to win favorable interest rates.

Last week, Moody's announced it would focus on just five states and Vermont wasn't on the list.

The states facing review — Virginia, Maryland, Tennessee, New Mexico and South Carolina — "are most vulnerable to changes in the U.S. government rating," Moody's officials said.

State Treasurer Pearce said Vermont has less dependence on federal funding, fixed rather than variable-rate debt and has filled its reserve accounts. "We are confident we are in good shape."

*Contact Nancy Remsen at 578-5685 or [nremsen@bfp.burlingtonfreepress.com](mailto:nremsen@bfp.burlingtonfreepress.com)*