

State of Connecticut

DENISE L. NAPIER
TREASURER



Hartford

March 16, 2015

Mr. John Micklethwait
Editor-in-Chief
Bloomberg News
731 Lexington Avenue
New York, NY

Dear Mr. Micklethwait,

Bloomberg's article of March 1st, *Connecticut Debt Feud Shows Malloy's Budget Strain: Muni Credit*, set forth a misleading comparison of a recent debt offering by Connecticut with one offered by Massachusetts, concluding that the Connecticut deal cost more because of a higher premium coupon. Bloomberg's comparison was misplaced in at least two respects, and is equivalent to comparing apples with oranges.

First, the Connecticut transaction involved a tax-exempt issuance, while the Massachusetts deal was for taxable bonds. Connecticut issued \$9.62 million in tax-exempt bonds with a 1.08% yield, while the \$50 million Massachusetts deal was for taxable bonds with a higher-cost 1.30% yield. It bears noting that in the current market, purchasers of tax-exempt bonds desire a premium coupon while purchasers of taxable bonds prefer par pricing. The higher annual interest from a premium coupon needs to be viewed in conjunction with the premium paid to the issuer at closing. It is, of course, the bond yield that measures the true return to the investor and ultimate cost to the issuer. Thus, it is not particularly helpful to compare tax-exempt with taxable bond structures.

Second, Bloomberg took the \$50 million amount of the Massachusetts bond and calculated an annual interest cost difference for the two coupon rates, even though the Connecticut bond was only \$9.62 million – again, with no recognition of the value of the premium payment in calculation of the economics of the two structures.

Lastly, there were a number of other states that priced tax-exempt transactions in the same period as Connecticut, which offered a better basis for comparison. For example, the State of Ohio, even with a higher credit rating, had the same 5% coupon and 1.08% yield as Connecticut for its \$15.59 million, 2018 bond maturity.

Precision in financial reporting is important, and the Connecticut Treasury is always willing to provide details on our bond sales to make sure that media coverage gets it right.

I appreciate Bloomberg's interest in Connecticut's prudent use of bond premium.

Sincerely,

A handwritten signature in blue ink that reads "Denise".

Denise L. Nappier
State Treasurer