



The Office Of State Treasurer
Denise L. Nappier

News

FOR IMMEDIATE RELEASE
August 3, 2016

TREASURER NAPIER ANNOUNCES RECORD-SHATTERING BOND SALE *LOWEST COST OF FUNDS IN A HALF CENTURY; BOND PRICING SPREADS IMPROVE*

HARTFORD, CT – Connecticut today sold \$250 million in tax-exempt General Obligation bonds at an overall interest rate of 2.53 percent – a record low for any similar State sale, State Treasurer Denise L. Nappier announced.

In addition, bond pricing spreads improved from levels of earlier this year, confirming strong investor interest in the State's bonds.

“Connecticut remains a blue-chip state that investors find very attractive,” Treasurer Nappier said. “That’s good news that has come at just the right time. We can now fund critical projects at the lowest interest rates on record. And with Wall Street’s bond houses competing head-to-head to buy our bonds today, we got the added benefit of improved pricing spreads.”

The General Obligation bonds were sold competitively in two separate series: \$250 million of tax-exempt new money bonds with a 20-year final maturity and \$250 million of taxable new money bonds with a 10-year final maturity. The winning 2.53 percent overall interest rate achieved on the 20-year tax-exempt bonds shattered the previous record low rate of 2.73 percent. The overall winning bid on the taxable 10-year bonds was 2.11 percent, the second lowest rate on record on a similar State sale.

“It’s important to appreciate the success of today’s sale,” said Treasurer Nappier. “Although our pricing spreads are higher than in past years, we entered the market at an opportune time to capture these very low market rates. At the end of the day, low borrowing costs save Connecticut taxpayers millions of dollars over the long term.”

Ten firms offered bids for the two series of bonds. A syndicate led by Morgan Stanley submitted the winning bid for the tax-exempt bond series. Morgan Stanley also submitted the winning bid for the taxable bond series, this time bidding on a sole basis. During a competitive bond sale, bond underwriting firms simultaneously bid on an internet platform to purchase the bonds, often in syndicate groups, and the bonds are awarded to the group or firm that offers the State the lowest overall interest rate.

Treasurer Nappier commented, “Periodically, we offer our bonds to the market through this competitive bond sale method. In this way, we get the best measure of how the markets evaluate our bonds, which helps us to make informed decisions concerning structures and pricing. A well-planned mix of competitive and negotiated sales allows us to achieve the best possible results for the State. Today’s competitive sale, in particular, was well-timed given that the State sustained three rating downgrades since May 2016.”

“We have seen strong investor demand from retail, trust departments, bond funds, insurance companies and other State investment funds. By utilizing a combination of premium and par bonds, more than 50 percent of all of the bonds were sold within a half hour of the award,” said Brian Wynne, Managing Director, Co-Head of Public Finance, at Morgan Stanley.

Investors Demand Premium Structure

The record-low total interest cost also generated more bond premiums than was previously expected. Bond premiums are extra, up-front payments from investors to the State in exchange for higher, above-market coupons over the life of the bonds. This structure, particularly demanded in low interest rate environments, allows for investors to protect against rising interest rates and to avoid certain consequential provisions in the federal tax code.

“There have been increasing discussions among Connecticut policy leaders concerning how the State can best use premiums. Rather than simply use these premiums to pay interest on General Obligation debt, I have called for a change in state law that would allow for premiums to be used to reduce the total amount of debt issued and, consequently, to lower future debt costs,” Treasurer Nappier said.

Current law requires that premiums on General Obligation bonds be used to pay interest on debt. The premiums paid to the State are used for debt service, which in turn frees up budget resources for other operational expenses.

Treasurer Nappier noted, “To be clear: premiums don’t directly pay to keep the lights on, but they do reduce what the State would otherwise pay for debt service, which in turn allows the Governor and legislature to redirect those monies for other purposes. I think there are better ways to use premiums -- that is, to reduce the need to borrow from the get-go -- which is why I have repeatedly urged the Connecticut legislature to change the law. I will continue to advocate for passage of this common sense measure.”

The Treasury estimates that had Treasurer Nappier’s proposals been enacted into law, and the State had the ability to fund projects with bond premiums, Connecticut could have issued \$221 million in tax-exempt bonds rather than \$250 million.

How the Proceeds from the Sales Will Be Used

Of the \$250 million in tax-exempt funding, approximately \$75 million will be used for grants-in-aid to towns and school districts; \$53 million for higher education, technical high schools and magnet schools; \$40 million to the Capital Equipment Purchase Fund; \$15

million for the Local Capital Improvement Fund and \$67 million for various other programs including Small Business Express program, brownfield remediation and economic and capital improvement programs.

Of the \$250 million in taxable funding, approximately \$120 million will be used for loans to various Connecticut companies for expansion and renovation projects; \$47 million to fund the Small Business Express Program; \$18 million to the Housing Trust Fund; \$12 million for the UConn Technology Park; \$12 million for housing projects and \$41 million in grants-in-aid to small and minority-owned businesses and other capital programs.

The bonds are scheduled to close on August 17, 2016. Disclosure counsel are Day Pitney LLP and Soeder & Associates, LLC. Tax counsel are Robinson & Cole LLP and Soeder & Associates, LLC. Financial advisors are Acacia Financial Group, Inc. and A.C. Advisory.

###