The Office Of State Treasurer
Denise L. Nappier
News

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TREASURER NAPPIER ANNOUNCES EXTENSIVE MARKET RESPONSE TO FIRST BOND SALE SINCE STATE BUDGET ENACTMENT

HARTFORD, CT – State Treasurer Denise L. Nappier announced today that the State received robust market response to its first sale of bonds and other debt securities of Fiscal Year 2018 – $400 million of general obligation bond anticipation notes and $450 million of taxable general obligation bonds. Of the $850 million available by competitive bid, the State received a total of more than $6.3 billion in bids.

"Any uncertainty or doubt about market response to Connecticut bond offerings proved to be unfounded as our two sales commanded significant bidding activity from 13 Wall Street firms, the highest number of any of our prior competitive sales," Treasurer Nappier said.

She noted that, "The extensive market response to our largest competitive sale on record is particularly noteworthy because this sale was the first since the State adopted its biennial budget in October and the first since the State sustained credit rating downgrades in May." In addition, due to the proposed federal tax law changes, the municipal market is experiencing extremely heavy supply in the final weeks of this calendar year.

The bond anticipation notes have a nine-month maturity and were offered in minimum increments of $25 million. On Monday, the State received 33 bids from 13 different firms totaling in excess of $2.7 billion. The lowest six bids totaling $400 million were accepted, which resulted in a blended interest rate of 1.48 percent. The winning bidders are: Morgan Stanley with Siebert Cisneros Shank; RBC Capital Markets; and Wells Fargo.

For the taxable bonds, the State received eight bids totaling $3.6 billion with Goldman Sachs submitting the winning bid of 3.26 percent. Taxable bonds are priced at a spread to U.S. Treasury securities. For comparison, the State's last taxable bond sale in August 2016 had a spread to Treasuries on the 10-year maturity of 1.02 percent. Monday's taxable 10-year maturity priced with a spread to Treasuries of 1.20 percent.

"Connecticut's budget woes have been widely publicized lately and our bonds have experienced widening spreads due to multiple rating downgrades and other fiscal concerns. However, the sheer size of the response was impressive and the pricing was reasonable," Treasurer Nappier said.

In addition, she said, “The pricing performance we gained is a useful measure of how the markets price our bonds and will assist us in structuring our future negotiated bond offerings. We appreciate the investment banking community’s continued interest in Connecticut bonds, which speak volumes about our state’s ability and uncompromising adherence to pay principle and interest promptly.”

She added, “It also is worth noting the legislative passage of the new credit revenue bond program, which we plan to launch in 2018. Decreasing the amount of general obligation bonds issued, while issuing new credit revenue bonds instead, is expected to lower the State’s borrowing costs and has the added benefit of providing a scarcity value to our outstanding general obligation bonds, which Wall Street may have factored into their competitive bids.”

During a competitive sale, Wall Street bond houses compete by simultaneously bidding on an internet platform to purchase the municipal securities, often in syndicate groups. The securities are awarded to the group or firms that offer the State the lowest interest rates.

In advance of the sale, all four of the bond rating agencies reaffirmed the State’s current bond ratings as follows: “A1” by Moody’s Investors Service with Stable outlook; “A+” by S&P Global with Negative outlook; “A+” by Fitch Ratings with Stable outlook; and “AA-“ by Kroll Bond Ratings with Negative outlook. In addition, each of the four rating agencies gave the State their highest short-term ratings: “MIG1”, “SP-1+”, “F1+” and “K1+” by Moody’s S&P, Fitch and Kroll, respectively.

The bond anticipation notes will fund a variety of projects including grants-in-aid to towns and school districts, fire training schools, housing projects, higher education, libraries, environmental and brownfield remediation, Clean Water Fund grants, technology upgrades, and demolition, construction and renovation at state-owned facilities.

The taxable bonds will fund economic development, housing projects, higher education technology, Town Road Aid, grants-in-aid to towns, grants to hospitals, Jackson Labs, the Small Business Express program, the Manufacturing Innovation Fund, and the BioScience Innovation Fund.

The bonds are scheduled to close on December 21, 2017. Disclosure counsel is Day Pitney LLP and Soeder & Associates, LLC. Tax counsel is Robinson & Cole LLP and Soeder & Associates, LLC. Financial advisors are Acacia Financial Group, Inc. and PFM Advisory.

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