



The Office Of State Treasurer
Denise L. Nappier

News

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CONNECTICUT GENERAL OBLIGATION BOND SALE OVERSUBSCRIBED; INVESTOR DEMAND STRONG

NEW FISCAL RESTRAINTS CONTRIBUTE TO POSITIVE MARKET RESPONSE

HARTFORD, CT – Connecticut received tremendous market response from both retail and institutional investors to its latest bond sale, State Treasurer Denise L. Nappier announced today. The State offered \$492 million in General Obligation bonds on June 4 and 5, which drew individual and institutional orders totaling \$1.522 billion for a nearly 210 percent oversubscription rate.

“The timing of our sale could not have been better,” said Treasurer Nappier. “It capitalized on the excellent market tone in the municipal bond arena this week. In addition, this result appears to reflect, in part, the market’s positive reception of the bond covenant to guarantee fiscal restraint that was adopted by the legislature last October.”

Retail interest from individual investors got underway quickly on Monday, June 4, and by day’s end, retail orders totaled \$270 million, which is the third highest amount for the General Obligation bond program over the past 19 years. There were \$107 million in retail orders from Connecticut residents alone.

On Tuesday, June 5, the institutional pricing took place and the remaining bonds were heavily oversubscribed in nearly all maturities offered. The significant oversubscription allowed the State to renegotiate the final interest rates to lower levels.

By way of comparison, this sale’s spread of 85 basis points to the benchmark MMD index on the 2038 maturity was an improvement over the previous General Obligation bond sale in March, which had a spread of 96 basis points on the 2038 maturity.

The State sold \$400 million in new money bonds, with a true interest cost of 3.53 percent and \$92 million in refunding bonds, with a true interest cost of 3.28 percent. The refunding will provide debt service savings of \$11.2 million over the next nine years.

The General Obligation bonds were sold by an underwriting syndicate led by Bank of America / Merrill Lynch, who indicated that the sale was timely because there would be a substantial amount of money from June 1 bond redemptions to invest in municipal bonds. In addition, they

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mentioned that because retail investors took more than half the bonds, there was not as much left over for institutional investors, which “fueled the fires” for those investors to come in at lower spreads.

Of note, these bonds are the first to include a bond covenant that commits the State to four distinct financial measures adopted by the General Assembly to better manage the State’s fiscal affairs. The bond covenant includes a pledge that the State will address its long-term liabilities, rein in spending and borrowing, and rebuild its Budget Reserve Fund.

The covenant prohibits the State from altering the four caps and prevents changes to the formula that establishes the State’s debt limit for five years from issuance of the bonds, except in cases where the Governor has declared an emergency and three-fifths of each chamber of the General Assembly votes in support of a change to any cap for that year.

“The concrete actions that the State is taking to strengthen our reserve fund and bring our spending and borrowing practices within our means go right to the heart of what rating agencies have been saying for some time. I am pleased that the marketplace is listening, and responding,” said Treasurer Nappier.

She added, “This successful sale also should allay concerns that the State’s contract assistance to Hartford might be a disincentive to investors. Investing in Connecticut remains attractive to investors.”

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 stable outlook; “A+” by Fitch Ratings with stable outlook; and “AA-” by Kroll Bond Ratings with negative outlook.

Of the \$400 million in new money bonds, more than half will provide funding for school construction projects. The remaining funds will be used for grants-in-aid to towns, economic development, brownfield remediation, general capital improvements and the clean water and drinking water programs.

The bonds are scheduled to close on June 20, 2018. Disclosure counsel are Day Pitney LLP and Soeder & Associates. Tax counsel are Robinson & Cole and Soeder and Associates. Financial advisors are Acacia Financial Group, Inc. and PFM Financial Advisors LLC.

Treasurer Nappier’s Debt Refinancing Program

The Treasurer’s Office has refinanced or defeased \$14.1 billion in bonds through the execution of 84 separate financing transactions since Treasurer Nappier took office in January 1999. Total refunding savings on such bond sales now exceeds \$1.2 billion. These transactions involved each of the State’s bonding programs, including General Obligation bonds, Special Tax Obligation bonds for transportation infrastructure, Clean Water Fund bonds, University of Connecticut bonds, Bradley Airport bonds, and other bonding programs.

“The State bonding program finances critical infrastructure, and my job is to make sure these investments are funded at the lowest possible cost for taxpayers.” said Treasurer Nappier.

Connecticut typically issues bonds with maturities of up to twenty years, with provisions that allow the State to pay them off after ten years at no cost. Savings are achieved by refinancing bonds to lower interest rates as well as refinancing longer maturity bonds with shorter maturity, lower cost bonds.

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