OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

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Nappier Uses Latest Technology to Take Electronic Bids for State Bonds; New Process Yields Solid Results for State Taxpayers

Connecticut's recent issues of government bonds were not only good news on the bottom line for state taxpayers, but represented the Treasury's first venture using Internet technology to issue debt. State Treasurer Denise L. Nappier announced that her office completed two State bond issues last month utilizing a state-of-the-art, Internet-based, bidding platform to accept competitive bids. These were the Treasury's first competitive bond sales in six years and the first-ever use of an electronic Internet-based platform to sell bonds.

The State Treasury offered $315 million in General Obligation bonds on June 2, the 2005 Series C bonds, to the market using a secure Internet-based electronic bidding platform. The bonds and bid parameters were detailed on the platform's web site and bidders entered their bids using secure direct modem connections to the platform. The Treasury could view all bids through password-protected access, but the bidders could not view each other's bids.

A total of nine competitive bids were entered for all of the bonds, with Merrill Lynch offering the lowest overall interest rate to the State at 3.79% – one of the lowest overall interest rates on any twenty-year new money General Obligation bond issue in state history. The rate also compared very favorably to municipal market indices for top-rated AAA tax-exempt bonds for that day. The 2005 Series C bonds, previously authorized by the State Legislature and State Bond Commission, closed on June 14. The proceeds are designated to provide funding for grants for construction of local schools throughout the state, grants to municipalities for Clean Water projects, capital improvements to the State's higher education facilities, and other state purposes.

"The substantial number of extremely competitive bids we received reflects a strong market following for the State's bonds from a diverse group of investors," Nappier said. "In addition, these competitive transactions provide us with an important benchmark for the pricing of future transactions, whether in the negotiated or competitive market."

On June 23, the State Treasury offered $65 million of Taxable General Obligation 2005 Series A bonds, using the same Internet-based bidding platform. The bidding was exceptionally competitive, a total of 20 separate bids received for all the bonds and only a two basis point spread (.02%) among the ten lowest bids. Goldman Sachs provided the winning bid with an overall interest cost to the State of 4.275%. Taxable bonds carry higher rates of interest because the interest is subject to federal taxation. The 2005 Taxable Series A bonds closed on June 29, with the results comparing favorably to other taxable deals in the marketplace.

The proceeds of the bonds, as authorized by the State Legislature and State Bond Commission, will finance economic development and housing initiatives including the redevelopment of the Hartford Civic Center site to include a 36-floor apartment building, parking garages, and downtown retail and office space.

CONTACT: BERNARD L. KAVALER, DIRECTOR OF COMMUNICATION
(860) 702-3277 FAX (860) 702-3043
BERNARD.KAVALER@PO.STATE.CT.US

"We have traditionally sold our bonds through negotiated sales, in which the underwriter is selected in advance and has the opportunity to pre-market the bonds to institutional and retail customers. This method benefits the State and its taxpayers by giving Connecticut residents access to the bonds in a retail order period," Nappier said. "The June bond issues, and the effectiveness of the Internet-based system, demonstrate that both methods provide solid, if different, benefits."

The important benefit of a competitive sale is that the head-to-head competition among underwriters provides an impetus for achieving the lowest overall interest cost for the transaction. It allows the issuer to test the market and get a true read on how the entire market values its bonds at an instant in time. This provides the State and its advisors important data and market information for use in evaluating pricing in negotiated bond transactions as well.

In each of the competitive bond issues during June, the winning bid was formally selected using the Internet platform, followed closely by a telephone call from Treasurer Nappier to reaffirm the selection and express the state's appreciation for the solid bid.

Negotiated sales have advantages as well. Because the underwriting group is selected in advance, the bonds can be advertised and pre-marketed to both individual and institutional investors. This allows the State to include a "retail order period" during which individual investors place orders for the bonds which can significantly support the overall demand for the transaction going into the final day of pricing when the remaining bonds are offered to institutional investors. Retail order periods have been known to produce as much as $100 million in advance orders for State bonds and one state bond issue was sold entirely during a retail order period.

Negotiated transactions can also be more appropriate in volatile market environments, where flexibility is needed in the timing of the sale and the structure of the transaction may have to be altered in order to address investor preferences. Additionally, if the transaction is particularly large, complex, or represents a new credit in the market, a negotiated sale offers the State the expertise and resources of an investment banking team in developing the best structure for the transaction. A negotiated sale also allows the issuer to determine in advance the involvement of firms in the underwriting group, thereby creating opportunities for firms to participate.

Refinancing Saves Taxpayers; Treasury Aids Hartford, Bradley Airport on Bond Issues

The June transactions wrapped up an active and successful year of debt issuance for the State. During the 2005 fiscal year, the Treasury issued almost $1.3 billion of new money bonds to fund state projects and grants, improvements to the State's transportation infrastructure, and capital improvements at the University of Connecticut.

"While I firmly believe that Connecticut must rein in the amount of debt that it issues, we will continue to meet our statutory obligations prudently and effectively, and work to lessen the burden on taxpayers wherever possible," Nappier said.

The Treasurer's office also assisted the Capital City Economic Development Authority with the issuance of $72.5 million of revenue bonds to complete elements of the Adriaen's landing project, including the new Connecticut Convention Center which opened last month. The Treasury also issued $456 million of refunding bonds to refinance Bradley Airport bonds, General Obligation bonds and state transportation bonds. The office also defeased all remaining debt of the Second Injury Fund and assisted the Connecticut Development Authority with the issuance of $22.4 million of refunding bonds. The total savings to taxpayers from debt refundings and defeasances during the Nappier administration now stands at $472 million.

Day, Berry & Howard is lead counsel for the General Obligation bonding program and Hunton & Williams is tax counsel. P. G. Corbin & Company, Inc. is the State's financial advisor on the General Obligation bonding program.

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