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DENISE L. NAPPIER

NEWS

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State Treasurer Announces Innovative Bradley Airport Debt Refunding Will Save Approximately $19 Million in Future Debt Costs

State Treasurer Denise L. Nappier has announced the Treasury's success in using an innovative financing vehicle, for the first time in state history, which will save Connecticut's major airport approximately $19 million in future debt costs.

In order to secure future savings and promote economic development, the Treasury utilized what is known in the industry as "forward-starting" interest rate swaps, which will allow Bradley International Airport to lock in today's low interest rates for use in the future to refinance 2001 Series A bonds. The competitive bidding process was utilized for two interest rate swaps, which will be used starting in 2011, totaling $152.3 million.

The refunding transaction will save an average of more than $900,000 per year in debt service payments beginning in 2011, resulting in total savings of almost $19 million. The Treasurer's Office was responsible for the negotiation and execution of the swap transactions, which were completed in cooperation with officials from the State Department of Transportation (DOT) and its Bureau of Aviation and Ports as well as the Bradley Board of Directors.

This latest refunding transaction brings the total debt service savings from debt refunding and defeasances during the Nappier administration to more than $494 million.

The Airport's 2001 bonds were issued to fund its highly successful terminal expansion and improvement program. Because the IRS code prohibits the issuance of new bonds to refund the 2001 bond issue before 2011, forward-starting interest rate swaps were used to secure favorable current interest rates on a refunding which will not be completed until 2011, when the bonds become callable.

"This innovative refunding is a proactive approach which enables the state's major airport to take advantage of favorable interest rates available in today's market," said Treasurer Nappier. "Locking in interest rates below 4% on a debt instrument going out 25 years provides a very competitive cost of funding for Bradley, and a prime engine in our state's economic growth."

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Department of Transportation Commissioner Stephen E. Korta, II said "This is great for Bradley. The debt service savings associated with these interest rate swaps will come at a critical time in the Airport's future development. The Airport is aggressively working toward the next major phase of terminal development to occur in the 2011 time frame."

In the weeks leading up to the bid, the State successfully negotiated master swap agreements with four counterparties including credit terms favorable to the State. Goldman Sachs provided the lowest bid for the first swap (3.693% on a $91.4 million par amount) and Bank of America provided the lowest bid on the second swap (3.683% on a $60.9 million par amount). The average interest rate locked in through the interest rate swaps is 3.689%. When the support costs for the variable rate bonds are added in 2011, the all-in interest rate cost on the bonds is expected to be approximately 3.939%, some 23% lower than the current 5.13% interest rate on the 2001 bonds to be refunded.

Treasurer Nappier noted, “This is the first time the State has used this unique financial tool to lock in today’s market rates on a future refunding, with significant results for Bradley and our state. We will continue to manage the State’s debt program with an eye for savings that can be achieved, now and in the future.”

The forward-refunding transaction was reviewed and approved by the Bradley Board of Directors on December 15, 2005, and the State Bond Commission on January 27, 2006. The Treasurer’s Office and officials from the Bradley Board and DOT briefed the credit rating agencies on the Airport’s recent financial and operational results as well as the planned forward-starting swap transaction. As a result of the briefings, Moody’s Investors Service affirmed the Airport’s A2 credit rating and issued a favorable report on March 27, 2006.

The State’s swap advisor, Lamont Financial Services, advised the State and conducted the bid process. Squire Sanders & Dempsey served as bond counsel on the transaction and assisted in the negotiation of the master swap agreements. The transaction closed on April 7, 2006.

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