The Office Of
State Treasurer
Denise L. Nappier

News

Nappier Announces Landmark Bond Sale

Largest in State Treasury History
Orders Were Double What Was Offered; European Investor Response High

For Immediate Release
April 22, 2008

HARTFORD, CT -- Connecticut State Treasurer Denise L. Nappier announced today the State has completed the largest bond sale in its history, pricing its $2.2 billion Taxable General Obligation Bonds (Teachers' Retirement Fund, 2008 Series). The State received more than $4 billion in orders for the offering, which was structured as current interest and capital appreciation bonds with a final maturity in 2032. Bond proceeds will be used to fund $2 billion of the unfunded liability in the Teachers' Retirement Fund, which provides pension benefits to approximately 90,000 active and retired teachers and education administrators, as well as their beneficiaries, throughout the State.

"We are extremely pleased with the strong investor response to this bond issue," Nappier said. "Although we were confident of its success right from the initial offering, it's always gratifying to have concrete evidence of the faith investors – both here and abroad – have in the State of Connecticut. This sale was historic in two key ways: first, at $2 billion, it was the largest in our State's history. Second, it was our first international sale, and the fact that more than half of the bonds were sold to investors abroad affirms the global market's confidence in the strength and stability of Connecticut's economy."

In explaining how the bond will save the State money, Nappier said, "We achieved a favorable borrowing cost of 5.88%, which is well below the 8.5% assumed long-term return on assets of the Teachers' Retirement Fund. This will provide significant cash flow savings over the long term and a potential savings to taxpayers of billions of dollars. And most significantly, Connecticut is now well on its way to meeting its commitment to its teachers."

According to Nappier, when taking into consideration the commitment to funding 100% of the annual recommended contribution and structural changes in how cost-of-living benefits are financed in the 2007 Pension Obligation Bond Act, the State could save up to $2.4 billon depending on the overall long-term return on assets. For the fiscal year ending

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June 30, 2007, Nappier noted that the investment return was 17.34%, outperforming the actuarial assumed return by 884 basis points.

"This bond sale was in the best interest of the State and our track record of investment performance speaks to the prudence of this course of action," she said.

The institutional sale capped a weeklong retail order period that ensured access to bonds for interested retail investors, particularly teachers. Building on its practice of focusing on the retail market, the State conducted broker outreach programs, sent a letter to the state's teachers and ran radio ads featuring Treasurer Nappier and Connecticut Teacher of the Year Joan Hurley. Institutional marketing efforts included one-on-one investor meetings and group presentations in various cities. This offering also marks the State's most significant use of the internet for a negotiated transaction---with the establishment of a retail website (www.buyCTbonds.com) and an institutional investor internet road show.

The transaction received strong interest from institutional market participants, particularly international investors. More than half (54%) of the transaction was placed with international buyers, primarily large European banks. To attract these buyers, the State obtained a Moody's Aaa Global Scale Rating and will list the bonds on the Luxembourg Exchange.

Nappier also said the sale confirmed that in a credit market that has seen major disruptions over the past several months, investors recognized the strong credit quality of this offering, which carried municipal ratings of Aa3/AA/AA by Moody's, Standard & Poor's and Fitch, along with the Aaa Global Scale Rating from Moody's.

"The success of this bond sale represents a significant turning point in how the State has historically budgeted its annual pension contributions at less than 100%, and that's a home run for Connecticut's teachers who for so long have sought assurance that their pension benefits would be there when they retire," said Nappier. "Most significantly, the bonds commit the State to fully fund the annual actuarially recommended contribution to the Teachers' Retirement Fund—the first time that a state pension offering has included such a requirement. This commitment, combined with the infusion of bond proceeds, will increase the funded ratio and protect the Teacher's Retirement Fund both now and into the future, while saving the State and our taxpayers money...truly a win-win situation for everybody."

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