THE OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

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THREE CREDIT RATING AGENCIES AFFIRM CONNECTICUT'S GENERAL OBLIGATION BOND RATING; AGENCIES DIFFER ON STATE OUTLOOK

State Treasury Achieves Lowest Interest Rates For Any New Money Bond Issue In the History of Connecticut's Transportation Program

State Treasurer Denise L. Nappier announced today two positive developments concerning Connecticut's general obligation bond rating and a transportation program bond sale. Both of these developments bode well for the State's ongoing ability to access the credit markets at favorable rates.

General Obligation Credit Ratings Affirmed, Mixed Reviews on Outlook

First, the credit rating firms of Moody's Investors Service, Standard & Poor's and Fitch Ratings all recently affirmed their respective ratings on the general obligation bonds of the State of Connecticut. Treasurer Nappier stated, "This confirmation of the State's ratings sends a strong message to investors that, despite the challenges posed by the current economic recession, the State's credit remains resilient."

Later this week, the State will offer investors $600 million of General Obligation Notes (Economic Recovery 2009 Series A), the proceeds from which will be used to cover a portion of the budget deficit from Fiscal Year 2009. (The last time such short-term notes were offered was to address the 2003 budget deficit connected with the last recession, and these short-term notes were paid off earlier than scheduled.) Beginning this Friday, and continuing through Monday, the State plans to offer a retail priority order period, during which orders on behalf of individual investors will be given priority in advance of the notes being offered to institutional investors on Tuesday, November 10.

"It has been more than six months since we have offered general obligation bonds or notes to investors, so we are looking forward to solid bond price performance. We believe that the robust demand for our other bond issues this year, along with the current demand for high quality state credits, will result in a successful sale of these general obligation notes," said Nappier.

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Even with this affirmation of the credit ratings, Moody's and Fitch Ratings have placed the State's general obligation credit rating on a negative outlook, which means that they will, over a period of 18 to 24 months, continue to review the State's overall fiscal health. On the other hand, in what Nappier described as a comeback on the appraisal of the State's forward-looking creditworthiness, Standards & Poor's assigned a stable outlook for the State's general obligation bonds. Nappier said the stable outlook speaks to the agency's confidence in the State's ability to effectively manage its budget as it has done in the past. (In 2003 at the tail of the last recession, the State navigated a budget deficit in the face of one rating agency's downgrade of its credit, coupled with an even more dismal credit outlook.) "Differing opinions about the State's credit outlook demonstrate that rating agencies simply do not always agree on their assessment of an issuer's creditworthiness, which speaks to the benefits of having multiple ratings. Connecticut remains today the wealthiest state in the nation and, as I emphasized last week, this means that Connecticut is in a better position than other states to right the course during these troubled economic times and adjust, where appropriate, its budget plan."

Treasurer Nappier cautioned that "further rating actions will hinge on the extent to which the overall economy improves, and on the extent to which the State meaningfully addresses structural imbalances in its budget. At a minimum, there needs to be a collective will to swiftly and decisively address the current year's deficit. If there is one thing that I believe all of these rating agencies would agree with, it is the need for our State's actions to speak louder than its words."

Sale of Transportation Bonds Nets Savings of $21.9 million

Another major State bonding program was met with good news last week in the form of an exceptionally strong sale of $550 million worth of bonds for the State's transportation program -- the largest sale of new money bonds in the program's history, and the first time that the State has ever issued Build America Bonds (BABs) made available under the America Recovery and Reinvestment Act (ARRA). The net savings realized from the sale is roughly $21.9 million over the life of the bonds. "All told, since 1999 my office has saved $617 million in debt service over the life of the bonds due to an active debt refunding and defeasance program," said Treasurer Nappier. "Every dollar of debt savings is one less dollar that our taxpayers must contribute," noted Nappier.

Of the bonds offered for sale, $500 million of bonds were sold to fund ongoing transportation improvements across the State (such as highways and bridges, mass transportation and transit facilities and other transportation improvements). The remaining $50 million of bonds were sold to refund existing bonds in order to lower interest rates and achieve savings. The transaction included a combination of traditional tax-exempt bonds ($246 million) and taxable BABs ($304 million), a new type of taxable bond designed to lower interest costs for municipal issuers and which are eligible for a 35% interest subsidy from the federal government under ARRA.

The overall interest cost on the $500 million of 20-year new money bonds was 3.48% (including the federal subsidy) -- the lowest overall interest cost on any new money bonds in history issued for the transportation bonding program. Even without the federal subsidy, this bond offering is record-setting as the most favorable interest cost in State history.

The sale attracted significant interest from a variety of investors for both the taxable and the tax-exempt bonds. "We stuck to our strategy by first allowing individual investors to place orders for these bonds, and it paid off with more than $132 million of retail orders for the tax-exempt bonds. On top of that, demand from institutional investors for the taxable portion of the sale exceeded the amount of bonds available by nearly two times," said Nappier. "The tremendous success of the overall sale demonstrates investor confidence in Connecticut, and that its bonds are an attractive option for different types of investors," she stated.

The State Treasurer's Office commended the work of Siebert Brandford Shank, the senior manager of the bond sale; Updike, Kelly and Spellacy, bond counsel; Lewis & Munday, co-bond counsel; and Public Resource Advisory Group and AC Advisory, financial advisors on the transaction. The Special Tax Obligation bonds received ratings of A1, AA, and AA- with stable outlooks from Moody's Investors Service, Standard & Poor's, and Fitch Ratings. The bond sale is scheduled to close on November 10.

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