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Investors Demand Greater Premium from Connecticut in Bond Sale.

Nov 17 – The premium Connecticut pays to borrow money in the municipal bond market rose on Tuesday as the state tapped investors for $650 million amid concerns about its weakening revenues and underfunded public pension system.

Investors have been penalizing states with poorly funded pension systems this year and recent news that Connecticut will see a budget shortfall of over $600 million over the next two years has added an extra layer of scrutiny.

Connecticut paid a premium of 0.56 of a percentage point over top-rated states to borrow for 10 years compared to a spread of 0.47 of a percentage point in the secondary market, according to Thomson Reuters data. Connecticut is paying interest of 2.72 percent on the ten-year bonds.

Lyle Fitterer, a fund manager at Wells Capital Management, said the wider spreads were “not a surprise based on what’s happened to other states that have pressing pension issues.”

Fitterer said he had not brought the bonds as the yield was still not attractive enough given the risk.

“In all honesty I’d rather own something like Illinois where, while it’s lower rated and has similar pension issues, at least your getting paid to take that risk,” he said.

The state’s Treasurer’s office, which is responsible for organizing bond sales, did not immediately return a request for comment.

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