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Connecticut Fiscal Strain Adds to Yield Premiums on Bonds.

Connecticut is paying a price in the municipal-bond market for the state's lingering financial stress.

The state sold \$650 million of general-obligation bonds in a negotiated sale Tuesday that saw the yield premiums demanded by investors rise on some maturities compared with a similar bond offering in August, according to data compiled by Bloomberg.

"There's pessimism in the market based on their financials," said Michael Hamilton, who runs a \$284 million Connecticut open-end mutual fund at Nuveen Asset Management. "The state just can't seem to put it together yet."

In the series E portion of the securities, the 5 percent bonds maturing in 2026 were priced to yield 2.45 percent, or about 72 basis points over benchmark securities, according to data compiled by Bloomberg. In August, a bond with a similar maturity and the same coupon were priced to yield 2 percent, or 51 basis points over its benchmark.

"Connecticut had a lot of company this week with \$15 billion of supply in the municipal market," Treasurer Denise Nappier said in an e-mail. "Despite this heavy volume, we successfully sold \$650 million of general-obligation bonds at an attractive overall interest rate of 3.01 percent."

Connecticut has grappled with issues such as a pension fund that is about 50 percent underfunded, a growing deficit and high taxes driving corporations out of state, according to Hamilton. S&P Global Ratings and Fitch Ratings cited persistent revenue shortfalls when both companies downgraded Connecticut by one level to AA- in May, each company's fourth-highest investment grade rank.

About \$65 million of Tuesday's offering were green bonds, meaning that the debt is dedicated toward financing an environmentally beneficial project. Such debt has the potential to attract investors who otherwise might not have looked at Connecticut, according to James Dearborn, head of tax-exempt securities at Columbia Threadneedle. Dearborn said that he's still in the process of looking at the debt.

"We do appreciate that they're using green bonds, but we do focus on what are the proceeds for, and how is it different than what you would have done otherwise?" said Dearborn, portfolio manager of Columbia's U.S. Social Bond Fund, which seeks to fund "socially beneficial activities and developments," according to its website.

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