State of Connecticut

DENISE L. NAPPIER
TREASURER

Hartford

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Brendan Cox
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Norwich Bulletin
10 Railroad Place
Norwich, CT 06360

Brendan
To ~~The Editor~~,

I am writing to set the record straight with regard to the Bulletin's editorial of July 31, 2016, *Our View: Ill-used borrowing instrument perpetuates problems.* While I support the conclusion that there are better ways to use bond premiums, the editorial misstates two essential facts: <u>why</u> bonds are sold with premiums and <u>how</u> those premiums are used.

First, the why: Investors in today's markets, with historically low interest rates, want tax-exempt bonds with higher, above-market coupons. And, they are willing to pay for them in the form of an extra, up-front payment known as "premium" when they buy our bonds. This structure allows investors to protect against rising interest rates and to avoid certain consequential provisions in the federal tax code. Premiums are a function of the market and of investor demand, not the "gimmick" that the editorial board suggested. Indeed, the reality of current market conditions is that if Connecticut didn't take these premium payments in exchange for higher coupons, we would have a tough time getting investors to buy bonds at such low rates.

So the public debate has centered around how the State can best use the premiums that investors pay us. Current law requires that we use premiums on general obligation bonds to pay interest on our debt, which is what the State does. The money received from premium payments goes right to debt service, which in turn frees up budget resources for other operational expenses. To be clear: premium doesn't directly pay to keep the lights on, as the editorial suggested. It does, however, reduce what we would otherwise pay for debt service, which in turn allows the Governor and legislature to redirect those monies for other purposes.

There are better ways to use premiums, to be sure, which is why I have twice urged the Connecticut legislature to allow for premiums to be used to reduce the total amount of debt we issue and lower overall costs. While my proposals were not adopted, I will continue to advocate for passage of this common sense measure.

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At the end of the day, Connecticut remains a blue-chip state that investors find incredibly attractive. Just today, we sold $250 million of bonds at a record-low interest rate of 2.53% -- the lowest total interest cost in the State's history – and saw bond pricing spreads improve from the levels of earlier this year. That's good news that has come at just the right time.

Sincerely,

Denise

Best Regards!

Denise L. Nappier
Treasurer, State of Connecticut