

Q&A

Kroll 'brings a fresh perspective,' says Connecticut's Nappier



Connecticut sold \$343 million in GO bonds last week, becoming the first muni issuer to receive a Kroll bond rating (of AA). Treasurer **Denise Nappier** discussed the sale via e-mail with Municipal Market's Brian Chappatta.

Q: What is the benefit of getting an additional grade from Kroll Bond Ratings, and does it outweigh the cost? Would you like to see more rating agencies grading municipal issues?

A: As a new rating agency, Kroll Bond Ratings brings a fresh perspective to public-sector credit ratings. Competition spurs innovation, and Kroll's entry into this market can only enhance the evaluation of Connecticut's credit by encouraging these agencies to be more accountable to issuers and investors alike. In addition, all debt issuers could benefit from more options for obtaining credit assessments which can improve the integrity of ratings and reduce the influence of a rating action by any one firm. Plus, our research indicates investors welcome new credit rating options following the collapse of the housing market that was caused, in part, by flawed AAA rated mortgage-backed securities. And yes, I can envision even more agencies rating municipal securities, resulting in an increase of choices for purchasers of rating agencies services.

Q: Do you prefer competitive sales or negotiated sales?

A: Connecticut has issued bonds through both competitive and negotiated sales. We take advantage of the negotiated sale method primarily because it is more flexible in structuring and timing than a competitive sale as the parameters for the sale can be adjusted and changed to meet changing market conditions. This is espe-

cially important in volatile markets. A major additional benefit of the negotiated sale method is the ability to presell bonds on a priority basis to Connecticut residents and other individual investors. This allows our citizens to access bonds while strengthening the overall placement and pricing of the entire transaction. This strategy allows the state to secure solid orders from long-term "buy and hold" investors, thereby creating greater competition among large investors for the remaining bonds.

Q: Part of Connecticut's recent sale was in SIFMA index bonds. What's the advantage of issuing that debt right now?

A: SIFMA index bonds are a good way of taking advantage of today's very low short-term interest rates without the need to secure a bank liquidity facility. Also, offering a portion of the bonds with a different structure attracts a broader group of investors for better pricing of the securities being offered. Finally, SIFMA index bonds are a way of diversifying the state's overall debt portfolio that is comprised primarily of fixed-rate bonds.

Q: When is the last time you sold SIFMA index bonds?

A: To date, we have issued \$905 million in GO SIFMA index bonds including the current sale, representing about 6 percent of the total amount of GOs outstanding. In May 2011, we sold two issues of SIFMA index bonds for \$337.6 million and \$75 million. Additionally, in August

2011 we converted \$280 million of variable-rate demand obligations to SIFMA index bonds and eliminated the bank liquidity facility.

Q: What do you think the state's role is in helping financially distressed municipalities?

A: The state does and should have a key role in helping distressed municipalities manage through difficult times. Connecticut is relatively small, with 169 diverse cities and towns ranging from some of the wealthiest, to some of the poorest communities in the nation. The ability of our local governments to borrow and tax is governed by state statute. The state maintains very close ties with all municipalities as our fates are inextricably aligned. Connecticut has a strong history of monitoring the fiscal health of our cities and towns and, when needed, has stepped in with a state-run oversight board to help the local government get back on track.

There currently are no such boards in place, but I did serve on one for the city of Waterbury several years ago and it was highly instrumental in getting that city back on sound fiscal footing. The governor's budget office has a dedicated inter-governmental division that monitors municipalities and, by statute, Connecticut also has a Municipal Finance Advisory Board responsible for working with any municipality experiencing fiscal distress. The commission has helped to identify and assist municipalities in averting fiscal crises, eliminating or alleviating the need for state intervention.



Follow Brian Chappatta on Twitter for regular updates and additional insights @bchappatta

