

## Dan Haar: Celebrating the right direction for state's debt

By Dan Haar Updated 1:14 am EDT, Sunday, April 7, 2019



Photo: Catherine Avalone / Hearst Connecticut Media

Democratic gubernatorial candidate Ned Lamont and Shawn Wooden, a Democrat running for state treasurer at the Goffe Street Park Wednesday, August 8, 2018, where organizers from New Haven Rising, Unite Here! and

*This column has been corrected to show \$46 million in total savings from the March bond issue for the state of Connecticut, compared with last year's rates. A previous version overstated the savings.*

An air of quiet celebration, or perhaps just satisfaction, filled the club level at Dunkin' Donuts Park in Hartford Friday as 250 civic-minded people gathered where the Yard Goats Double-A baseball team will open another season this week.

Few talked about baseball, although the host, state Treasurer Shawn Wooden, played a key role in creating the controversial ballpark as former president of the Hartford city council.



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The subject Friday was the future of Connecticut's pensions and debt at the Treasurer's annual conference.

What? How can celebration and Connecticut debt sit in the same sentence?

The answer is it can, because of progress on two fronts — the results of Connecticut's recent bond sale and reform of the underfunded teachers' pension fund.

It's not whooping-and-hollering progress, but with a budget for the upcoming fiscal year that's still \$1.5 billion out of whack, movement in the right direction is worth noting.

A week ago, on March 29, the state issued \$1 billion in debt — up from a planned \$850 million — and the results surprised David M. Womack, among many others. He's senior vice president at Blaylock Van LLC, based in Midtown Manhattan, a co-manager of the bond issue — meaning his firm underwrote some of it and sold it to investors.

Womack knew the sale was well timed, during a spike in interest for many state and municipal bonds as investors search for tax-free places to earn decent returns. That means prices on public bonds have been rising, which, in turn means the interest rates issuers such as Connecticut must pay are lower.

"There is just a lot of money chasing too few bonds," said Womack, who has covered Connecticut as a bond issuer for a dozen or so years.

But, funny thing, Connecticut's interest rates fell even more than he and others expected, even more than the market as a whole.

The state paid 3.12 percent for the 20-year, tax-exempt bonds in the sale, compared with 3.64 percent for equivalent bonds in the August sale. That means a savings of about \$46 million over the life of the bonds.

## 'Huge' in the bond market

Of that savings, more than half is attributable to overall conditions in the bond markets now, compared with August. Some of the savings is due to the markets smiling on Connecticut's credit quality, as the so-called spread, the higher interest Connecticut must pay over a theoretical ideal issuer, narrowed by at least two-tenths of 1 percentage point, or 20 basis points, to 62 basis points for the longest bonds.



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It's only a tiny savings compared with the \$2.2 billion Connecticut will pay in debt service on its general obligation bonds this year. But, in a world where small changes can add up, "It is huge in this market," Wooden said Friday, as he exited the conference to testify on pension reform at the state Capitol.

And it happened without an upgrade by any of the major Wall Street bond ratings agencies, although Standard & Poor's raised the state's outlook to positive from stable.

"Investors overwhelmingly are making a bet on the future of Connecticut," Wooden said.

How big a bet? The issue attracted \$5.5 billion in orders for the \$850 million in bonds, which Connecticut upped to \$1 billion. And almost half of those orders came from investors who attended one of four road shows Wooden put on last month, along with Gov. Ned Lamont and Melissa McCaw, Lamont's budget chief.

Womack is among those who thinks the road shows, in Hartford (hey, the road starts at home), Boston, New York and Chicago, made a difference.

"There's hope that the markets have stronger confidence in the new regime," Womack said.

Wooden described the road shows this way, for investors: "They can read official statements and they have analysts who do that all the time but to be in a room in that setting and to kick the tires and ask questions ... you're getting a qualitative analysis of what's happening with the state and the leadership."

## Still digging out

None of this means Connecticut is a healthy patient when it comes to its fiscal crisis. Among 20 states issuing significant debt, Connecticut showed the second highest interest rates last month (after Illinois) on its 10-year bonds, at 2.72 percent, according to CreditSights, in New York. The average was 2.16 percent, more than one-half of 1 percentage point lower.

Still, analysts, including Howard Sitzer at CreditSights, say Connecticut is moving, albeit slowly, in the right direction — and that helped the recent sale. "The 'debt diet' Governor Lamont has proposed...may have additionally driven demand for this issue," Sitzer said in an email.

That [debt diet, Connecticut's vow to borrow less](#) in the coming years, was highlighted in the road shows, along with other reforms, including a bipartisan, forced savings provision that led to a ballooning of the state's reserve fund to a forecast \$2.2 billion this summer.



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"Investors have a pack mentality," Womack said, "and they heard what they wanted to hear from the treasurer and the governor."

I asked him whether Connecticut had "turned the corner" in the bond markets, and in its fiscal condition. That's a loaded phrase, as former Treasurer Denise L. Nappier used it last summer, after that bond sale attracted a lot of interest, though the [spreads were not narrower](#) in the way they were this time around.

"It's at the corner and turning it, having a better sense of what's around it," Womack said. In medical terms, "It's triage now and they're stabilizing the patient."

He continued, "When I started covering the state 12 years ago ... Connecticut was rated AA and spreads were in the 40s."

That's better than today's situation, as the state is rated A or A+.

"They were printing tax dollars. But once the financial crisis hit, the financial crisis just blew a hole in that economy, a hole that has not been filled. But Connecticut kept on borrowing."

We could argue forever about whether all that borrowing under former Govs. M. Jodi Rell and Dannel P. Malloy helped keep the state afloat or added to the burden — the answer is both — but the bond market hit the state hard.

It's a long corner to turn, and a lot depends on refinancing the teachers' pension fund. Sen. Paul Formica, R-East Lyme, at the conference Friday, indicated his party may be willing to go along with some of the Democrats' proposed fixes.

(I was moderator of a different discussion unrelated to state debt at the same conference.)

That difference in tone matters, as McCaw said to me later. And maybe, just maybe, we can start to see what's good about the state.

"It's still by and large a wealthy state," Womack said, "and it's got good schools and it's between Boston and New York. ... People aren't heading for the exits."

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