Bond Case Briefs

Municipal Finance Law Since 1971

Muni-Bond Market Braces for Borrowing Rush Ahead of Tax Changes.

- **November, December could be 'huge' for issuance, analyst says**
- **Republican overhaul would pull tax break from many bond types**

The municipal market is preparing for a potential onslaught of bond deals before the end of the year as U.S. lawmakers consider pulling the tax break from tens of billions of dollars of debt issued each year.

The House of Representatives bill would require investors to pay income taxes on so-called private activity bonds, or PABs, which finance projects like airports, water facilities and toll roads, and do away with a frequently used refinancing technique known as advanced refunding. While the Senate version leaves PABs intact, the risk may push borrowers to act before the law is changed, Municipal Market Analytics said in a research report.

"It could be a huge end of the year," Matt Fabian, a partner with MMA, said in an interview. "Issuers will probably begin to access the market shortly just on the risk. If they're going to borrow next year they might as well accelerate to borrow now."

A late-year rush — if significant enough — would offset the slowdown in the municipal market, where new debt sales have declined from last year's record pace. That contributed to this week's drop in state and local government bonds prices, paring the gains that came after the tax overhaul promised to slash sales in the years ahead by pulling the tax-exemption from a significant chunk of the market.

Citigroup Inc. analysts raised their municipal-bond sales forecast for 2017 by $15 billion to about $380 billion as governments move to refinance before the tax law is potentially changed. There was $428 billion of municipal debt sold last year, according to data compiled by Bloomberg.

The pace of issuance through the end of 2017 may be limited because there are few weeks left to do so. Given that it's already mid-November, there isn't enough time for a lot of issuers to come to market before the end of the year, according to Philip Fischer, head of municipal research at Bank of America Merrill Lynch.

The Illinois Finance Authority used PABs to finance more than $24 billion in "essential infrastructure projects," including more than $3.6 billion in fiscal year 2017, according to a draft of a memo to Congress from the agency. Ending the exemption means projects may not get built, be delayed or reduced in scale, said Chris Meister, the authority's executive director.

"The virtue of private activity bonds is that it provides a fairly small benefit, but in each individual transaction it's a material benefit to non-profits to do the sort of work that either the private, for-profit sector cannot or does not want to do, or that government cannot or cannot afford to do," Meister said in an interview.

The Illinois authority is ready to move quickly to help borrowers get private-activity deals done before the end of 2017, according to Meister, who said he’s heard that some borrowers are interested in moving up planned sales.

If enacted, the rollbacks to municipal-bond subsidies will “disproportionately” hurt states with fiscal challenges, said Richard Ciccarone, Chicago-based president of Merritt Research Services, which analyzes municipal finance.

“In Illinois, we can’t replace those kind of government incentives with tax-supported programs because our balance sheet is already loaded with debt and pensions liabilities,” Ciccarone said. “So we can’t easily replace the loss of the lower cost to do your financing.”

Bloomberg

By Elizabeth Campbell

November 14, 2017, 8:53 AM PST