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Muni Buyers Are Handed a Holiday Bounty With Governments Rushing to Market.

- **New offerings hold near 13-year high in usually slow month**
- **Issuance may break $54.7 billion monthly record seen Dec. 1985**

For municipal-bond buyers, December is providing the chance for a rare holiday shopping spree.

Spurred by legislation in Congress that would end the tax-exemption for a big share of the market starting next year, state and local governments are rushing to borrow, turning a typically sleepy month into a potential record-setter.

That's created some discounts, too: In anticipation of the deluge, prices have dropped, sending the Bloomberg Barclays Municipal Bond Index 0.54 percent lower in November, its worst monthly performance in a year.

"It is significantly busier," said David Mullen, senior vice president and director of public finance at Dougherty & Co., a Minneapolis based investment bank and financial advisor. "The feeling in the office is hectic."

The volume of sales scheduled over the next 30 days currently stands at $26.9 billion, holding near its highest in almost 13 years. That's already more than was sold in all of last December, and the final tally is likely to be considerably higher because many deals are planned with less than a month's notice.

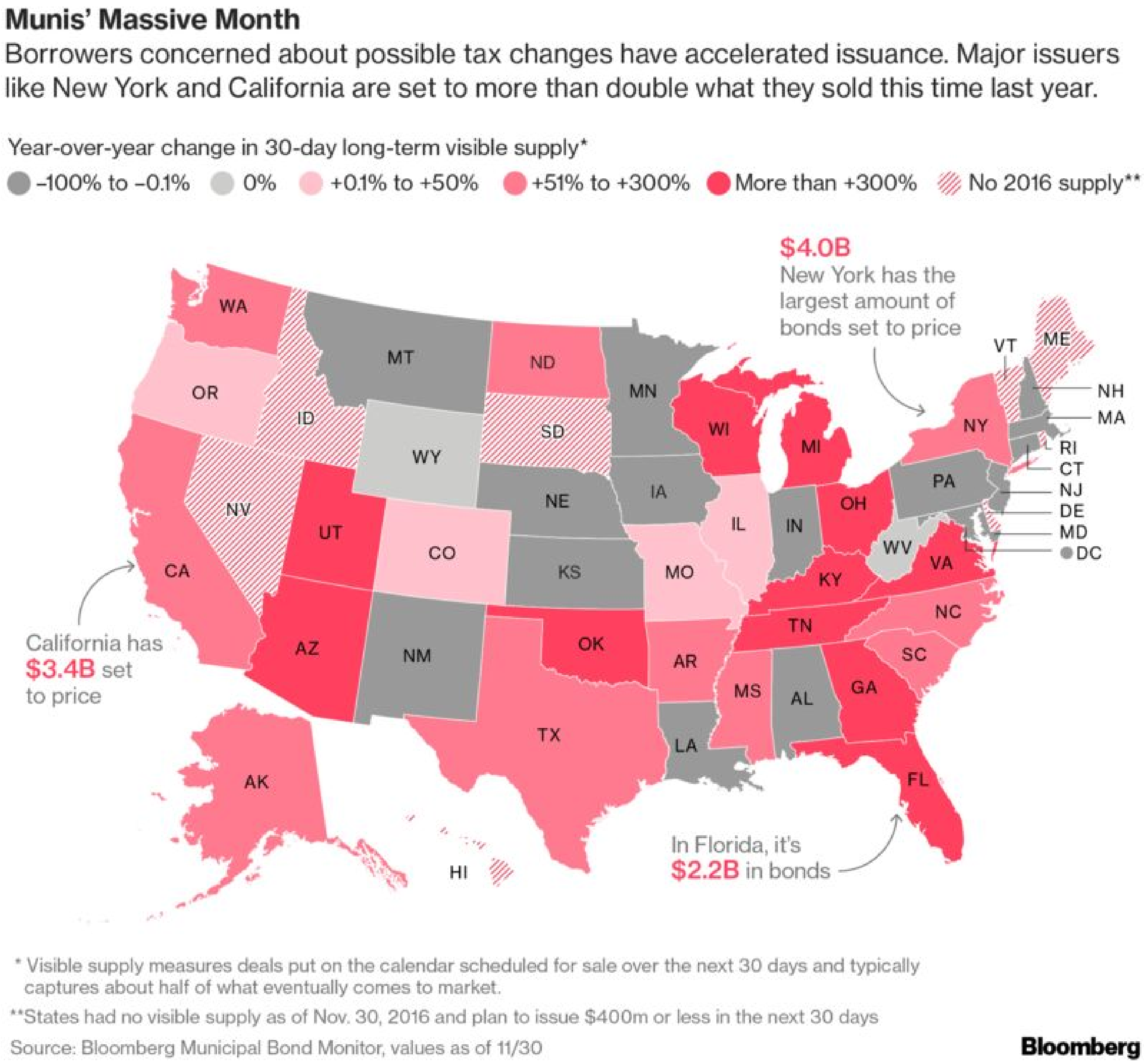
The tax bills in Congress — which propose scrapping subsidies for advance refundings and, in the House's version, private activity bonds as well — would reduce tax-exempt issuance significantly starting next year. Those two categories accounted for about 40 percent of total new supply over the past three years, according to Peter Block, managing director of credit strategy at Ramirez & Co.

Hence a rush that recalls the scramble to issue seen in December 1985, ahead of the last major overhaul of the U.S. tax code. Governments in New York are leading the charge with $4 billion of borrowing planned, followed by California, Texas and Florida.

Should December issuance top $54.7 billion, it would be the biggest month in the market's history. Mikhail Foux, head of municipal strategy at Barclays Plc, estimates that $40 billion to $50 billion will be sold, in line with other forecasts. That compares with about $32 billion in November.

The dramatic increase in supply has driven municipal prices down and yields up, with the Bloomberg Barclays municipal index loosing about 0.8 percent last month, the worst monthly showing in a year.

"I'm getting the impression that there is a lot of general market distortion that prices are significantly different than what they were two or three weeks ago," said Scott Stevenson, a managing director at D.A. Davidson, an underwriter.



The uncertainty is due partly to the discrepancies between the House and Senate tax bills, with the Senate proposing to leave the private activity bond market intact.

“One pivotal question, one key uncertainty to this whole equation is the degree to which what’s eventually passed. Is it the House version or is it the Senate version?” said Brett Wander, chief investment officer of fixed income at Charles Schwab.

For the moment, that’s sending underwriters into overdrive. And buyers are busy shopping.

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