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Muni-Bond Sales Sold by Auction Poised to Reach Two-Decade High.

- **Competitive bond sales rise to 28 percent of the market**
- **Taxpayers get lower borrowing cost through bidding, states say**

State and local governments are selling the greatest share of their bonds competitive bidding in more than two decades as issuers including New York and Rhode Island embrace auctions as a way to save taxpayers money and boost transparency.

Municipalities have sold $33 billion of municipal bonds this year through auctions, about 28 percent of total sales, instead of relying on underwriters picked in advance to set the interest rates and line up buyers. If that percentage holds for the rest of 2018, it would be the highest since 1994, according to The Bond Buyer Yearbook.

The shift comes as sales of new bonds have tumbled this year, leaving banks eager to bid on new deals, after Congress did away with tax-exempt debt sales for a popular refinancing tactic that governments often relied on underwriters to arrange. New York plans to sell at least half of its debt in the current fiscal year, or about $3.5 billion, on a competitive basis, according to the state's capital program and financing plan released this month. Last year, the state auctioned off 79 percent of its debt, about $6.6 billion.

"New York is achieving lower interest and underwriting costs by doing about half our sales through the competitive marketplace, saving money for taxpayers," said Morris Peters, a spokesman for the Division of the Budget. "The decision of whether to conduct a competitive sale reflects market conditions and the level of complexity, but even when we need bank expertise afforded by a negotiated sale, the benchmark set by competitive sales helps with the pricing."

In a competitive sale an issuer offers its bonds for sale and banks bid against each other to purchase the securities at the lowest cost to the issuer. The bank assumes the risk that it might not be able to sell all the bonds it bought. In a negotiated sale, a municipality hires a pool of banks to find buyers, with interest rates set in discussions with those underwriters.

Last year, states and local governments sold about 24 percent through auction, their highest level since 2000. Bank of America Corp. is the top underwriter of competitive deals this year, winning more than a quarter of municipal bonds auctioned.

Debt issued by highly-rated municipalities, well-known issuers or with simple structures — such as bonds backed by a general pledge to pay or by utility revenues — are suitable for sale by auction, said Jonas Biery, business services manager at Portland, Oregon's Bureau of Environmental Services and the chair of the Government Finance Officers Association's debt committee.

By contrast, negotiated sales are suitable for lower-rated bonds, debt with unique security features and terms or securities sold by infrequent borrowers.

“If you think about the volume of things that go the market, there should be more competitive sales,” Biery said. “The majority of credits are going to be more akin to well rated, A or above, fairly standard terms, fairly standard credits.”

Biery speculated that the share of competitive sales has grown because Congress abolished advanced refundings, which were often sold by negotiation, the volume of lower-rated debt sales has dropped and direct loans by banks has declined because the reduction in corporate tax rates made them less lucrative for lenders.

Rhode Island adopted a policy of issuing general-obligation bonds through competitive bid in 2016 after newly elected state treasurer Seth Magaziner realized the state hadn’t auctioned its bonds in a decade.

“We thought it would be a more transparent approach to begin selling the state’s GO debt competitively,” said Kelly Rogers, Rhode Island’s deputy treasurer for policy and public finance. “Through a competitive sale you’re able to point to the specific savings that you potentially gain through the bidding process, which is information you’re not privy to through the negotiated process.”

When Rhode Island auctioned $150 million in tax-exempt and taxable bonds last month, the winning bids saved the state $1.5 million, said Rogers.

New York State, one of the biggest issuers of municipal bonds, could push the percentage of competitive sales over 30 percent.

In fiscal 2009, New York instituted a policy to sell 25 percent of its bonds competitively, raising that to 50 percent three years later. Over the past five years, the state has sold $19.4 billion of its debt, or 60 percent of the total issued, through competitive bid, according to the state’s division of the budget.

A budget division analysis of New York’s personal income tax-backed bounds found that the yields on bonds sold by competitive bidding were 0.1 percentage point closer to the benchmark, on average, than when the state selects an underwriter in advance, said Peters.

New York also pays lower fees to underwriters on competitive sales. Over the last five years, the state paid $2.19 per $1,000 bonds for bonds sold by auction and $4.79 per $1,000 on negotiated deals, on average, for personal income tax- and sales tax-backed securities, according to Peters.

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