

# Bond Case Briefs

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## University of Michigan Sells Record-Sized College 100-Year Bond.

- **It's also the biggest bond sale in the school's history**
- **Strong reception enables Barclays to double size of offering**

The University of Michigan has sold the biggest-ever century bond by a college or university as part of a record \$2 billion debt package.

The top-rated school marketed \$1.2 billion of century bonds this week that won't mature until April 2122, capitalizing on investors' desire for long-dated, high-quality debt. The bonds priced at par with a 4.45% coupon. A second \$500 million tranche due in 30 years priced at par with a 3.5% coupon, and a third tranche at the same price covered \$300 million of green bonds.

Collectively, it's the biggest debt sale in the school's history, according to data compiled by Bloomberg, and the century bond's size was about double the initial target. The bonds were underwritten by Barclays Plc and are subject to federal income taxes, with the proceeds earmarked for campus improvements.

The substantial demand "was a testament to the university's strength and overall strategy," said John Augustine, a managing director at Barclays who runs the bank's higher education group. Investors ranged from investment management firms to insurance companies, with buyers both in the U.S. and Europe. He said the deal was "well oversubscribed."

Hundred-year bonds are an unusual phenomenon in the \$4 trillion municipal bond market, where states and cities raise money for infrastructure projects. They're almost exclusively sold by highly rated colleges like the University of Pennsylvania and the Massachusetts Institute of Technology, institutions that have already been around for more than a century. The Port Authority of New York and New Jersey and New York and Presbyterian Hospital have sold such debt.

Augustine said the school was initially targeting \$500 million to \$700 million of century bonds, but demand allowed it to essentially double the size, which was unusual for a large deal in such a volatile market. Demand for ultra-long debt typically comes from institutional buyers, such as insurance companies looking to match their assets with their longer liabilities.

"Strong demand from investors, both in the U.S. and abroad, allowed the university to upsize the transaction beyond what was originally expected," said UMich Chief Financial Officer Geoff Chatas said in a statement. "Regardless of where market rates go from here, this committed funding will provide long-term rate stability for the university."

Rival school Michigan State University sold \$500 million of century bonds on March 2 with a 4.165% yield to maturity. That deal was more than two times oversubscribed, and indications of interest reached about \$1.1 billion, according to Michigan State CFO Lisa Frace. That demand caused spreads to narrow 5 basis points from preliminary pricing, she said.

## **Price Pressure**

“UMich is a stronger credit, but of course it’s a much bigger tranche size,” said Patrick Luby, municipal strategist at CreditSights. “The weakness in U.S. Treasuries exaggerated the pressure on the pricing for the University of Michigan bond.”

Most of the University of Michigan debt will be used for campus improvement projects, with a portion specifically labeled as “green bonds” with proceeds dedicated to helping the campus achieve its goal to be carbon neutral by 2040.

Augustine expects more well-known universities to sell ultra-long dated debt. They’re looking to “take some risk off the table and secure that capital now,” he said.

## **Bloomberg Markets**

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— *With assistance by Janet Lorin*