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Muni Bond Refinancing Wave Bolstered by Fed Interest Rate Cuts.

- **Muni refunding bond volume is up more than 70% since 2023**
- **MTA, Chicago have plans to refinance debt in the coming months**

States and local governments are refinancing more debt than in years, seizing on lower borrowing costs and signaling a wave of such bond sales as the Federal Reserve prepares to cut interest rates even further.

Municipal bonds sold only to refund existing debt have topped \$66 billion so far this year, an increase of nearly three-quarters from the same pace in 2023. Those deals represent nearly 20% of all state and local government debt sales, the largest share since 2021 — a year when 10-year municipal bond yields dropped below 1%, according to data compiled by Bloomberg.

“The refunding surge started around the beginning of the summer when there were more clear indications of where the interest-rate direction is going,” said Alice Cheng, vice president and municipal credit analyst at Janney Montgomery Scott. “Working with issuers and bankers, I know that everybody is looking at any opportunities for refunding.”

The reopened window is a win for governments who have had limited refinancing opportunities since the Fed started raising interest rates in 2022. And such sales can save cities, states and towns major cash. Chicago, for example, estimates it can reclaim about \$70 million of debt-service costs through a proposed \$1.5 billion refunding sale to help close its budget deficit.

Refunding Sales Increase on Rate Picture

Share of muni bond sales sold to refinance existing debt

Some of the biggest issuers in the \$4 trillion municipal bond market are taking advantage of the window to refinance. The Metropolitan Transportation Authority plans to sell \$872 million of new bonds to raise funds to retire and refund existing debt in a competitive sale on Oct. 1, according to preliminary offering documents dated Wednesday.

The Chicago Transit Authority — which runs bus and train service in the Windy City — is also among issuers looking to refinance for savings. The agency is considering issuing a new deal in the next several months to refund \$555 million of bonds sold in 2014, said Tom McKone, chief financial officer of the CTA. Most municipal transactions have a 10-year call option, meaning debt sold a decade ago is now able to be refinanced.

“We do see rates coming down and rates are attractive,” McKone said.

Despite the elevated amount of refinancing sales this year, issuance is expected to continue climbing into 2025, said Drew Gurley, managing director of municipal underwriting at Siebert Williams Shank.

“There’s a lot of callable bonds that are available, so I’m expecting a lot of refundings,” he said. “I don’t see that issuance will fall off a cliff.”

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— *With assistance from Erin Hudson*

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