Bond Case Briefs

Municipal Finance Law Since 1971

Reuters: U.S. Reopens Bond Sales to State, Local Governments.

After a five-month hiatus to keep the government from breaching the debt limit, the U.S. Treasury re-opened sales of niche bonds on Thursday that help local governments manage their debt sales.

The securities sales, which were suspended in May to allow the government to stay beneath a $16.7 trillion debt cap set by Congress, reopened at 1:00 p.m. local time.

Earlier on Thursday, President Barack Obama signed into law a bill to suspend the debt ceiling until February and end a 16-day government shutdown. By reopening sales, the Treasury will build up a buffer that will likely allow it to continue adding to the national debt even after February.

The suspension was part of a series of so-called extraordinary measures employed by the Treasury which gave the government a five-month cushion once it started scraping up against the debt ceiling in May.

Known as "SLUGs," the securities comprise an asset class that is relatively tiny but still an important tool for state and local governments in managing debt sales.

State and local governments use SLUGs to park cash from debt refundings until they pay off maturing bonds. The yields on SLUGs are kept low to keep state and municipal issuers from breaking Internal Revenue Service rules so the bonds can keep their tax-exempt status.

Municipal bonds tied to SLUGs are sought after by investors because they offer tax-free yields while also being explicitly secured by federal government securities.

The amount of debt outstanding in the SLUGs market was about $124 billion as of last month and has shrunk by about a third over the last four years. Over the last three years, sales have been suspended three times to allow the government to stay under the debt ceiling.

(Reporting by Margaret Chadbourn and Lisa Lambert; Editing by James Dalgleish and Krista Hughes)