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California Toll Road Sells $1.4 Billion in Bonds.

Deal Benefited from Last Week's Sharp Rally in Credit Markets

The operator of a struggling toll road in southern California sold about $1.4 billion in bonds on Wednesday, capitalizing on a broad decline in yields that has whetted investors' appetite for riskier bets.

It is the second billion-dollar sale for a toll road this month, after the Texas Transportation Commission's $1.26 billion bond deal on Oct. 2, and the biggest since Texas sold about $1.45 billion in bonds in March, according to Ipreo data.

The San Joaquin Hills Transportation Corridor Agency, responsible for financing a 15-mile toll road in Orange County, Calif., was able to boost the deal size by 40%, a sign that municipal-bond investors are shrugging off worries about Detroit's record bankruptcy and Puerto Rico's economic woes as they pursue bigger returns.

Many toll roads ran into trouble after the 2008 financial crisis, when revenues fell amid declines in traffic. The California agency restructured its debt in 2011 and has hiked tolls every year since 2012 to appease existing bondholders, according to Moody's Investors Service.

But the historically low yields on ultrasafe government debt and municipal bonds are bolstering the lure of toll-road debt and other riskier types of fixed-income investments. Investors in the recent weeks piled into safer types of debt, driving prices up and yields to fresh lows, amid worries about the pace of economic growth in Europe and in other parts of the world.

Last week, the average yield on municipal bonds hit 2.19%, the lowest level since May 2013, according to S&P Municipal Bond Index. Bond prices move in the opposite direction of yields.

In Wednesday's deal, the San Joaquin agency priced most of the debt to yield between 4% and 4.45%. Proceeds will go toward refinancing bonds sold to build the highway, which opened in 1996 and runs between the cities of Newport Beach and San Juan Capistrano.

A $1.1 billion chunk of the bond deal is rated triple-B minus by Standard & Poor's Ratings Services, one notch above "junk" status. Another $294 million part, rated "junk," was priced to yield between 4.55% and 4.8%.

"With people stretching to get a little more yield, their timing is good," said Howard Cure, director of municipal research at Evercore Wealth Management LLC, which supervises about $5.4 billion.

Toll roads are rebounding with the economy after the recession caused vehicle use to fall about 3% between 2007 and 2011, according to a report last week by Janney Capital Markets, which upgraded its outlook on the sector.

The San Joaquin toll road was originally proposed as a free highway funded through gas-tax revenues before lawmakers in the 1980s approved a plan to collect tolls to fund construction, billing it as a way to build highways without taxpayer money.

Usage and revenue growth, however, didn’t match projections. After the recession buffeted toll collections, the agency shored up its financial health by renegotiating with bondholders to stretch out some payments and agreeing to maximize toll collections.

The lower interest rate from Wednesday’s sale will allow the agency to slow the rate of toll hikes so they match the rate of inflation, said Amy Potter, the agency’s chief financial officer. “We’ve put together a debt structure that aligns well with how the road has performed,” Ms. Potter said, adding that the new bonds allowed the authority more breathing room to cover debt payments.

The sale leaves the agency with about $2 billion in debt, according to S&P.

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