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Refunding Pushes U.S. Municipal Bond Sales to \$8.77 bln Next Week.

Jan 16 (Reuters) – The U.S. municipal bond refunding renaissance will be in full bloom next week, with nearly half the \$8.77 billion in scheduled debt sales from issuers eager to refinance at the market's current lowest interest rates, Thomson Reuters data shows.

Out of the \$6.64 billion negotiated sales expected, \$3.35 billion will be refunding, and the Texas Transportation Commission's \$1.75 billion refinancing of turnpike debt will be the largest negotiated deal of the week.

The Texas bonds coming to market on Thursday, with Barclays Capital as lead underwriter, will refund \$686 million toll revenue bonds as well as retire a \$1.1 billion federal Transportation Infrastructure Finance and Innovation (TIFIA) loan.

"The reason we're doing this is simply to obtain debt service savings given current market conditions," said Benjamin Asher, the department's debt management officer during the sale's road show.

The TIFIA loan carries a 5.51 percent interest rate and yields on most U.S. municipal bonds are currently well below that level in the secondary market, even for lower-rated credits.

On Friday, the yield on a top-rated 30-year bond was 2.54 percent, the lowest since December 2012, according to Municipal Market Data, a unit of Thomson Reuters. The yield on a highly rated 10-year was 1.75 percent, the lowest since May 2013.

The state's transportation department has been seeking to lower its debt load for the last year, and it used some of the proceeds from a \$1.6 billion deal in November to refinance outstanding bonds, as well.

In the middle of 2014 municipal bond interest rates began falling, and reversed a sharp decline in the borrowing of states, cities, and other governments. Issuance in the \$3.6 trillion market totaled more than \$314 billion last year and came in slightly ahead of the previous year's sales – something no one would have predicted on Jan. 1, 2014.

"After posting gains in December, the municipal bond market was able to claim a perfectly positive year. Issuance was very strong in December, as was demand, both defying typical patterns and pointing to continued strong momentum heading into 2015," wrote the BlackRock Municipals Group in a note earlier this week.

Refunding has plumped the sales. Out of the \$2.14 billion in competitive sales expected for next week, 40 percent will be refinancing. The biggest sale on the competitive calendar is a \$460.2 million general obligation refunding deal from the state of Washington.

(Reporting by Lisa Lambert; Editing by Diane Craft)

