

# **Bond Case Briefs**

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## **Refundings Double as Yields Decline Most Since 2011: Muni Credit.**

(Bloomberg) — Municipalities across the U.S. are reaping the benefits of interest rates close to five-decade lows, refinancing billions of dollars of debt and freeing up money for roads, schools and environmental projects.

Washington, under court order to boost education spending, expects to save almost \$90 million in the next two years, the cost of operating two community colleges. In Oregon, refundings last month saved about \$72 million, equivalent to what it paid to fund a Portland research hospital for two years. Louisiana, which faces a \$1.6 billion deficit next fiscal year as oil prices slide, will steer a \$109 million windfall to transportation work.

“We’re spending less money on interest and more money on roads,” Louisiana Treasurer John Kennedy said in a telephone interview. “Every penny counts.”

Municipal borrowing costs dropped the past four quarters, the longest stretch since 2011, as fixed-income markets rallied amid concern that global economic growth was slowing. Benchmark 10-year munis yield about 2.1 percent, down from about 3 percent at the start of 2014, data compiled by Bloomberg show.

### **Doubling Up**

As interest rates sank, refunding issuance tallied about \$70 billion last quarter, up from \$36 billion a year earlier, Bloomberg data show.

Since the start of 2015, state and local governments have refunded \$27.6 billion in debt as of Feb. 12, for combined savings of \$1 billion to \$2 billion, said Phil Fischer, head of municipal bond research at Bank of America Merrill Lynch in New York.

The refunding leap spurred the busiest January for muni-bond sales since 2010 — at about \$27 billion — and may signal higher issuance for the year ahead, according to Chris Mauro, head of U.S. municipal strategy at RBC Capital Markets in New York.

For local treasurers, the refinancings come at an opportune time, bringing an influx of cash as officials balance rising pension costs with the need to invest in neglected infrastructure projects.

“Incremental funds are always helpful and can accelerate improvements in state finances,” Fischer said.

### **Washington Shortfall**

Refunding volume may reach about \$235 billion this year, \$45 billion higher than last year, Fischer wrote in a Jan. 23 report. The last time refundings were as high was in 2012, he said. Ten-year yields for benchmark muni issuers fell to about 1.5 percent that year, the lowest since at least 2010.

Washington faces a projected budget shortfall of more than \$2 billion for the two-year cycle that begins July 1, according to Ralph Thomas, a spokesman for the Office of Financial Management.

A Jan. 21 refunding of about \$460 million in general-obligation debt produced \$5 million in savings in the two-year budget cycle that begins July 1, said Scott Merriman, a spokesman for the treasurer. A separate refinancing this month generated more than \$32 million in savings, the treasurer's office said.

"We're a profit center in state government," Treasurer James McIntire said in an interview. "We finance long-term capital projects, and when we get the opportunity, we refinance them, just like any homeowner would take advantage of lower mortgage rates."

### **Taxpayers' Gain**

A state Supreme Court order requiring Washington to boost support for K-12 education accounts for the biggest piece of the budget gap, said Thomas, the spokesman for the financial management office.

Oregon also took advantage of the drop in interest rates, saving about \$72 million by refunding lottery-revenue bonds and highway user-tax revenue bonds, according to a Jan. 15 news release.

In Iowa, a refinancing this month by a state authority will generate \$33 million of savings for a fund that finances drinking-water and wastewater infrastructure improvements.

Louisiana, which had its credit outlook revised to negative Feb. 13 by Moody's Investors Service and Standard & Poor's, generated its savings through a refinancing of gasoline and fuel-tax bonds last month.

The state, where mining activity, including oil, gas and coal, accounts for almost 13 percent of the economy, is confronting budget deficits as oil prices are down about 50 percent since June.

"We're giving taxpayers more bang for the buck," said Kennedy, the treasurer.

Bloomberg Muni Credit

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5:00 PM PST

February 16, 2015

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