Bond Case Briefs

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U.S. Bridges Falling Down Get No Help From Record '15 Muni Sales.

The cheapest borrowing costs in five decades aren't enough of an incentive for states and cities to address their crumbling bridges and roads.

While municipalities have issued a record $130 billion of long-term, fixed-rate bonds this year, an unprecedented 70 percent of the deals have gone to refinance higher-cost debt, rather than fund capital expenditures, according to Bloomberg and Bank of America Merrill Lynch data.

At about $40 billion, muni sales to finance projects are unchanged from the same period last year — even though the nation's aging infrastructure has become a problem so dire and obvious that it was the subject of a feature by comedian John Oliver last month on HBO's "Last Week Tonight."

"Refunding has taken precedence over infrastructure financing," said Phil Fischer, head of municipal research at Bank of America in New York. "It's going to save state and local governments a lot on debt-service costs, and it's going to help them catch up in terms of their pensions and other fixed obligations."
"That can't go on forever," he said. "Infrastructure projects are needed all over the country."

D+ Grade

The country requires about $3.6 trillion of investment in infrastructure by 2020, according to the American Society of Civil Engineers. The group's 2013 report gave the country a "D+" grade.

This year's issuance mix shows state and local officials are reluctant to add debt even though the recession ended almost six years ago and yields on 20-year general obligations, at about 3.5 percent, are close to a generational low set in 2012.

The $3.6 trillion municipal market shrank in 2014 for the fourth-straight year, the longest stretch of declines in Federal Reserve data going back to 1945.

Municipalities often sell bonds that they can refinance after a set period, which is a windfall if interest rates decline. California lowered debt-service payments by about $180 million through a $1 billion refunding this week, according to the state treasurer's office. Four of the five largest muni deals this year were for refinancing, including tobacco debt from California.

Deferred Needs

"The refundings have been stronger than we expected because interest rates are lower than we expected," said Michael Zezas, Morgan Stanley's chief muni strategist in New York. "There's still a lot of deferred capital needs throughout the municipal issuer system, both at the state and local level."

Issuance is on pace to eclipse the record $408 billion of supply in 2010, when states and cities clamored to borrow in the final year of the federally subsidized Build America Bonds program. The $188 billion initiative, which debuted in 2009, was designed to boost infrastructure investment.

Should this year's pace of refunding persist, it would beat the record set in 1993 of 67 percent of deals that reissued debt at lower yields, according to Bank of America data.

Fischer said he raised his supply forecast to $400 billion from $350 billion because of the refinancing wave. Zezas said he's sticking with his prediction of $354 billion, for now.

At some point, bonds sales to fund infrastructure will have to go up because the spending isn't "optional," according to Fischer.

"America got the same grade that a 10th-grade teacher gives a nightmare kid so she doesn't have to deal with him for another year," Oliver said in the March 1 episode of his satire news program on HBO.

The segment, with about 3.8 million views on YouTube, carries the description: "America's crumbling infrastructure: It's not a sexy problem, but it is a scary one."

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by Brian Chappatta

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