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Kansas Tops U.S. Municipal Bond Calendar with \$1 Bln Pension Deal.

Kansas will offer \$1 billion of taxable pension bonds in the U.S. municipal market next week in a move that could make investors skittish given a recent default on some bonds in Puerto Rico and credit ratings downgrades in Chicago.

Debt service on the bonds is subject to annual appropriation, meaning that Kansas' legislature must decide each year whether to allot money to make the payments.

Just this week, there was a default on Puerto Rico appropriation-backed bonds, while credit ratings on more than \$3 billion of Chicago convention center bonds were severely downgraded because an impasse over Illinois' fiscal 2016 budget blocked a monthly transfer of tax revenue to the bond trustee.

Alan Schankel, a managing director at Janney Capital Markets, said the combination of pension and appropriation bonds will come at a higher cost to Kansas.

"I think anybody has to take a look at appropriation debt and require a little more yield," he said.

Meanwhile, the Government Finance Officers Association in January advised states and local governments not to issue pension bonds because they carry "considerable risk."

The practice, which relies on the assumption that invested proceeds will result in higher returns than the interest cost on the bonds, came under heightened scrutiny particularly in the wake of Detroit's \$1.4 billion issuance that was tied in part to soured interest-rate swaps that helped drive the city to file the biggest-ever municipal bankruptcy in 2013.

Kansas' deal is the largest on next week's nearly \$5.8 billion calendar of competitive and negotiated municipal bond and note sales.

The state's fixed-rate bonds will be issued through its development finance authority and will be structured with serial maturities from 2017 through 2030 and term bonds due in 2037 and 2045, according to the preliminary official statement.

A state law limits the bond interest rate to 5 percent. Pricing is scheduled for Monday through senior underwriters Bank of America Merrill Lynch and Wells Fargo Securities.

The bonds are rated Aa3 by Moody's Investors Service and AA-minus by Standard & Poor's, which has a negative outlook on the rating due in part to the state's pension payments falling short of actuarially required levels.

Kansas projects that the bond sale will improve the funded ratio for pensions to 73 percent in 2020 from 59 percent at the end of 2014.

REUTERS

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(Reporting by Karen Pierog in Chicago and Hilary Russ in New York; Editing by Paul Simao)

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