

Bond Case Briefs

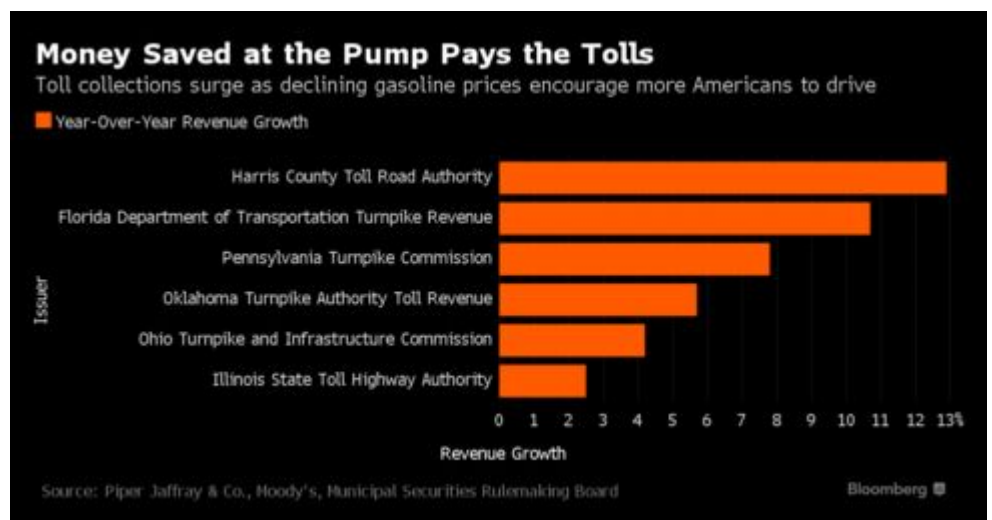
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Unlikely Beneficiary of Cheap Gas Turns Out to Be Highway Bonds.

Americans are paying less at the pump and more at the toll booth, making municipal bonds for highway projects one of the rare winners from the oil-market crash.

Tax-exempt toll-road and turnpike securities have gained 1.8 percent this year, outpacing the 1.6 percent return for the broad \$3.7 trillion market, Bank of America Merrill Lynch data show. That's extending a five-year run of out-performance for the bonds, the longest streak since the data begin in 2005.

The slide in gasoline prices is adding fuel to the rally in the muni-market niche, where state and local governments have sold \$109 billion of debt tied to roads, bridges and tunnels that charge a fee. With more drivers hitting the road, the finances are looking brighter: In December, Moody's Investors Service assigned a positive outlook to toll roads for the first time.



"If oil prices are low for a couple of years, it's a great time to take advantage of some of these energy-dependent sectors like tollways," said Justin Hoogendoorn, a managing director in Chicago at Piper Jaffray Cos., which recommends adding the securities. "We're definitely seeing their revenues improve and it's translating to tighter spreads."

The cost of a barrel of oil has been cut by more than half since June, sending gasoline down to about \$1.70 a gallon, the lowest since the depths of the recession seven years ago. That pushed the number of Americans traveling more than 50 miles (80 kilometers) above 100 million, a record, from Dec. 23 to Jan. 3, with 91 percent driving to their destination, according to a projection from the American Automobile Association.

Traffic will grow by a median 3 percent for the 45 toll roads rated by Moody's, the company said in a

December report. It raised its outlook on the segment to positive, citing a forecast of 5 to 6 percent increase in revenue this year, once toll increases are included.

Some have done even better than that. Collections at the Harris County Toll Road Authority in Texas soared by 12.9 percent in the 2015 fiscal year, while the Florida Department of Transportation's turnpike revenue jumped 10.7 percent and the Pennsylvania Turnpike Commission saw a 7.8 percent increase, according to data compiled by Piper Jaffray. The three are among the 15 largest issuers of tollway securities, data compiled by Bloomberg show.

The securities offer higher relative yields as interest rates in the municipal market hold near the lowest since the 1960s. Harris County's bonds due in 2034 traded Feb. 10 at a 2.55 percent yield, about 0.3 percentage point more than benchmark munis, Bloomberg data show. They were first sold in October for a yield of 3.08 percent, some 0.4 percentage point more than AAA debt. Harris County had more than \$2 billion of highway debt outstanding at the end of August, according to bond documents.

"The fundamentals of some of the toll roads are improving — you've seen some spread compression, but we still think there's some value there," said Burt Mulford, a manager of tax-exempt funds in St. Petersburg, Florida, at Eagle Asset Management, which oversees \$2.5 billion of state and local debt. "There's more volatility in the revenue stream on toll roads because it's based on economic conditions."

Crude-oil futures on the New York Mercantile Exchange have plunged as supply worldwide exceeds slowing global demand. The price for a barrel has dropped about 26 percent this year to just over \$27, holding near the lowest since 2003.

While a boon for toll roads, the slide from \$100 a barrel in mid-2014 has wreaked havoc on budgets in states that count on oil-related revenue. Alaska, Wyoming, New Mexico, Louisiana, Texas and North Dakota are among the most-dependent on the energy industry, according to a report last month from Standard & Poor's.

In Alaska, which last month lost its AAA rating from S&P, the state will collect only a third of the \$5.2 billion of revenue initially expected for the fiscal year ending June 30. It may have to institute a personal income tax for the first time in 35 years to balance its budget.

Investors should sell bonds backed by municipalities that count on oil until public officials figure out how to combat the price decline, according to Hoogendoorn at Piper Jaffray. The extended drop suggests that the supply-demand imbalance isn't a fleeting phenomenon, he said.

"Tollways are non-essential, and obviously you can have varying traffic," Hoogendoorn said. "But ultimately, we're going to drive, and with low gas prices, we're going to drive quite a bit more."

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