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Big Taxable Deal Next Week in $7.1 bln of U.S. Municipal Bond Sales.

Feb 19 – University of North Carolina at Chapel Hill will sell $401 million of triple-A rated taxable general revenue refunding bonds, one of the biggest deals in the nearly $7.1 billion of U.S. municipal bonds and notes to price next week, according to Thomson Reuters estimates.

If a similar deal this week is any indication, North Carolina's offering could draw strong demand, according to Dan Heckman, senior fixed income strategist at U.S. Bank Wealth Management.

"Taxable muni spreads on new issues have been attractive and demand has been very strong for those taxable issues if priced attractively," Heckman said.

For example, this week Missouri's Health and Educational Facilities Authority issued $403 million of triple-A rated taxable revenue bonds for Washington University in St. Louis. The deal was at least 3.5 times oversubscribed, Heckman said.

"Taxable munis give buyers an attractive option to corporates and with less spread risk in many cases," he said.

Investors have poured money into municipal bond funds for 20 consecutive weeks, according to data from Lipper, a unit of Thomson Reuters.

The biggest deal next week is from New York City, which plans to price $800 million of general obligation bonds through lead manager Jefferies.

Investors "will want to watch spreads and demand, given the weakness in capital markets and its impact on NYC," Heckman said.

While the city's strong liquidity, budgetary flexibility, management and economy continue, its debt and contingent liability profile is "very weak," said Standard & Poor's Ratings Services, which assigned an 'AA' rating with a stable outlook.

The city has "some exposure to interest-rate risk given maximum bank rates on its variable-rate debt of up to 25 percent," S&P said.

The city's debt plans also include $6.2 billion of GO bonds and Transitional Finance Authority future tax-secured bonds annually in fiscal 2017 and 2018.

Furthermore, its pledge to fund $2.5 billion of the Metropolitan Transportation Authority's five-year capital plan could "create additional financing needs."

Finally, New York City's public pension and retiree healthcare benefits are another source of pressure. Those costs, in addition to debt service, were 26.2 percent of total government expenditures in 2015, which S&P said was "elevated."

Reuters

(Reporting by Hilary Russ; Editing by Bernard Orr)