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New York Leads Refinancing Wave as Muni Yields Touch Decades Low.

The era of rock-bottom interest rates is sticking around for American states and cities, prompting a fresh wave of municipal-bond sales.

New York City Tuesday sold general-obligation debt for the first time since July to pay off higher-cost securities. The $800 million offering is the biggest tax-exempt sale this week and is set to be followed by refinancing deals from Los Angeles's schools, the Kentucky building commission and North Carolina, according to data compiled by Bloomberg.

Just two months after the Federal Reserve took its first step back from the near-zero interest rates in place since the credit crisis, borrowing costs in the $3.7 trillion municipal market have slipped back near five-decade lows. With investors seeking havens from equity-market turmoil, 20-year muni yields are holding at 3.27 percent, matching the level reached in December 2012 for the lowest since 1965, according to the Bond Buyer's index.

"If rates stay here we'll get a lot of new issuance and a lot of refundings," said Phil Fischer, Bank of America Merrill Lynch's head of municipal research in New York. "Money is very cheap."

New York's bonds priced at a top yield of 3.09 percent for those maturing in 19 years, according to data compiled by Bloomberg. Ten-year bonds were issued for yields of 2.09 percent, 0.43 percentage point more than AAA-rated municipal bonds of the same maturity.

State and local governments have long taken advantage of low borrowing costs to refinance, with many rushing to do so last year as the Fed moved toward its first rate increase since 2006. Municipalities issued about $420 billion of long- and short-term debt in 2015, the most since 2012.

The pace in 2016 has lagged the same period a year earlier: About $45.4 billion of municipal bonds have been issued this year, down from $50.2 billion in 2015, Bloomberg data show. In both years, about half of the proceeds were used exclusively for refinancing. Before Tuesday, the slide for New York governments had been more pronounced, slipping to $3.5 billion from $4.2 billion.

The continuation of low rates could foster an increase in securities offerings. Yields on top-rated tax-exempt bonds maturing in 10 years reached as little as 1.57 percent on Feb. 11, the lowest since late 2012.

The city's sale comes after it refinanced $750 million of general-obligation bonds in July, which officials estimate will save about $109 million. The Los Angeles Unified School District is set to sell $575 million of refinancing debt next week, with another $551 million planned by the Kentucky's building agency and $330 million by North Carolina.

For New York, the interest savings have added to its financial gains, with growing sales and income-tax collections helping the city build $5 billion in reserves. The New York City economy, larger than all but four U.S. states, added 213,000 jobs in 2014 and 2015, pushing the unemployment rate to 4.9

percent.

While the financial sector accounts for 10.9 percent of New York City’s employment and 20 percent of its wages, the economy continues to diversify, thanks to the higher education, health-care and technology industries.

New York’s fiscal strength has led investors to accept lower yields to hold its bonds. The spread, or extra interest they demand relative to AAA rated bonds, dropped to 0.29 percentage point in trading Tuesday, near the 26-month low hit last month, according to Bloomberg indexes.

Moody’s Investors Service rates New York’s general obligation bonds Aa2, its third-highest investment grade. Standard & Poor’s gives the bonds a comparable AA rating.

The latest sale should do well, said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which oversees about $4 billion of municipal bonds, including New York’s general-obligation debt. New York received $151 million of orders from individual investors on Monday, according Eric Sumberg, a spokesman for Comptroller Scott Stringer.

Municipal bond mutual funds have had 19 straight weeks of in-flows, including about $1.4 billion two weeks ago, according to Investment Company Institute data.

“Retail investors want to balk because they don’t like the interest rate environment, but they have so much cash they don’t have much choice,” Dalton said. “Munis still make sense on an after-tax basis.”

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by Martin Z Braun

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