

# **Bond Case Briefs**

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## **Junk-Rated U.S. Municipalities Shine Brighter With Record Low Rates.**

NEW YORK/CHICAGO — Record low interest rates so far have failed to spur a wave of new borrowing in the \$3.7 trillion U.S. municipal debt market, with one exception: its weakest borrowers are seizing the opportunity to prop up their finances at costs they can afford.

As of July 19 total municipal debt issuance this year fell 1.6 percent to \$227 billion from the same period last year. However, new borrowing rather than refinancing of existing debt is up 12.5 percent at \$88.8 billion, with lower-rated debt rising the most, according to Thomson Reuters data.

An analysis of the data shows the total amount of municipal junk bonds rated by S&P Global Ratings at BB-plus or below issued this year rose 170 percent to \$1.2 billion over the same period in 2015. (Graphic: <http://tmsnrt.rs/29Zs6oO>)

Many higher-rated issuers are using the rock-bottom rates to refinance old debt, but have been slow in boosting borrowing for new projects because of a lengthy approval process and many communities' reluctance to take on new burdens.

Those that struggle financially face similar problems, but some simply need to borrow to keep going and many are able to issue revenue bonds, which do not require voter approval.

Some cash-strapped areas, including Illinois and low-rated Chicago, can also issue bonds for new spending without taxpayer approval at the ballot box.

Some struggling cities, states or individual projects "have to borrow to keep going," said Matt Posner, principal of public finance research firm Court Street Group.

With muni bond rates at record lows, junk and low investment-grade rated issuers are trying to exploit what could be a rare window of opportunity before any market reversal makes borrowing costs prohibitive again.

"Issuers with lower ratings are taking advantage of the very tight spreads and nearly insatiable demand for any paper that has any hint of additional yield," said James Dearborn, head of muni investing at Columbia Threadneedle.

One example is California's Loma Linda University Medical Center, which planned to double its outstanding debt to pay for renovations to meet state seismic safety requirements.

In September 2015, Fitch Ratings cut the center's rating to junk at BB-plus, and by April it sold \$948 million of debt. The biggest tranche maturing in 2056, carried a 5.25 percent coupon and sold at a premium to yield 4.70 percent. Today those bonds trade much higher, driving the yield down to 3.24 percent.

Similarly, in February, Chicago's Board of Education sold bonds rated B-plus for capital

improvements and refinancing. The 7 percent, 28-year bonds were sold at a big discount but have since risen above par value.

More borrowing is under consideration, district CEO Forrest Claypool said.

Public-private projects – including an upgrade of New York’s LaGuardia Airport – have also contributed to the uptick, Posner said. Many such projects contain a municipal bond portion rated in the triple-B range, the lowest-investment category, which also grew as rated by Moody’s Investors Service, the data show.

Lower-rated borrowers are also refinancing old debt faster than investment-grade issuers.

The value of junk-rated refunding bonds grew 248 percent to \$1.9 billion, Thomson Reuters data show, while the total slipped 9 percent to \$138 billion.

More deals are in the works. In the junk category, Detroit will issue about \$615.5 million of refunding bonds in the next couple of weeks to save an estimated \$37 million in its first general obligation offering since exiting the largest ever U.S. municipal bankruptcy in December 2014.

Chicago, downgraded to “junk” last year by Moody’s, plans to sell up to \$1.25 billion of general obligation bonds this quarter. Illinois, the lowest rated U.S. state, could refund up to \$2 billion of bonds.

By REUTERS

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