

Bond Case Briefs

Municipal Finance Law Since 1971

As Donald Trump Plans Building Boom, Cities and States Rush to Borrow.

Voters authorize \$55.7 billion in debt on Election Day, the most approved since 2008

President-elect Donald Trump is promising an infrastructure boom once he is sworn in. In some parts of the country, a burst of new construction spending by states and cities is already under way.

State and local governments around the U.S. have issued \$149 billion in bonds for new infrastructure projects thus far this year, putting 2016 municipal borrowing on track to surpass each of the past five years, according to Thomson Reuters data.

Much of the new bond issuance happened in the second and third quarters, after a long stretch of low borrowing. Total bond issuance, including refinancing, has reached \$388 billion, also a five-year record.

On Tuesday, voters across the country authorized state and local governments to borrow another \$55.7 billion for similar projects, according to Ipreo. It was by far the most borrowing approved since 2008.

"I think there's a lot of momentum, not only at the political level but also by the general public, to start spending more on infrastructure," said Dan Heckman, senior fixed-income strategist at U.S. Bank Wealth Management.

Mr. Trump made a \$1 trillion infrastructure investment over the next decade one of his first priorities as president, promising in his victory speech Wednesday to "rebuild our highways, bridges, tunnels, airports, schools, hospitals." The proposal relies on private financing. Experts and industry officials say it is unlikely the nation's aging infrastructure can be updated without public support.

In the short term, however, costs could go up for government borrowers. Municipal-bond prices have dropped along with Treasuries in days after the election, with interest rates for an A-rated 20-year general obligation bond at 3.2% on Thursday, compared with 2.94% on Monday, according to Thomson Reuters. Analysts cited concerns that inflation under a Trump administration could increase borrowing costs.

"In an era where the range has been pretty tight, that's a pretty dramatic move in such a short period of time and he hasn't even taken office yet," said Howard Cure, director of municipal research at Evercore Wealth Management.

Florida bond finance director Ben Watkins is relieved to have refinanced more than \$1 billion in mostly state general obligation bonds since June. His only regret, he said, is that he didn't also push through a planned \$250 million bond to improve Florida's turnpike and another deal to refinance school construction borrowing.

"With this change in [municipal bond] rates, I wish I had been smart enough to go ahead and sell

regardless of what the market felt like,” Mr. Watkins said.

Local infrastructure projects have languished for years as cities and states struggled to balance their budgets in the aftermath of the recession. Long-term borrowing for new projects by major U.S. cities hit a 24-year low in 2014, according to an analysis by The Pew Charitable Trusts.

But with expectations of a federal rate increase in December, local officials were eager to get in on historically low interest rates, many analysts said. Municipalities issued \$108 billion in bonds in the third quarter of this year, compared with \$86 billion in the third quarter of 2015, according to Thomson Reuters data. They also asked voters Tuesday to approve nearly 700 ballot measures seeking to issue bonds and won approval for more than 70% of them, according to Ipreo.

“The low interest rates are very attractive to us and the idea of waiting any longer means the cost will drive up,” said Alicia Trost, spokeswoman for San Francisco’s Bay Area Rapid Transit, or BART. The transportation system won voters’ approval Tuesday to issue \$3.5 billion in bonds, its first referendum since 2004. The money will be used to replace 90 miles of rail and fix leaky tunnels and other infrastructure improvements.

Voters in Texas’ El Paso Independent School District approved \$668.7 million in new borrowing in what was the school system’s first successful bond referendum since 2007, said spokeswoman Melissa Martinez. The money will pay for a consolidation of school campuses to accommodate declining enrollment, 81 new school buses and laptops for middle-school students in the 60,000-student district.

A citizens committee working on the referendum chose not to limit the borrowing to \$500 million after learning that the additional money would add only \$2.39 to the tax bill for a \$100,000 home.

That type of deal will likely still be available to them. Despite the postelection volatility, “borrowing costs are still relatively and historically low,” U.S. Bank’s Mr. Heckman said.

THE WALL STREET JOURNAL

By HEATHER GILLERS

Nov. 12, 2016 7:00 a.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com