

# Bond Case Briefs

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## Every Basis Point Counts to Muni-Bond Issuers Rushing to Market.

- **Difference in rates between taxable, tax-exempt would add up**
- **A-rated 30-year G.O. bond issue would cost \$12 million more**

What's the difference between selling municipal bonds that are tax-exempt and taxable? While a few fractions of a percentage point might not seem like much, it can cost taxpayers millions of dollars.

For example, an A-rated municipality that issues \$100 million in 30-year general-obligation bonds in the taxable rather than the tax-exempt market would see an additional cost of 0.40 percentage points, or \$12 million over the next three decades, according to calculations based on Bloomberg's indexes.

That's why states and local governments are rushing to sell billions of dollars of bonds this month, in case Congress enacts legislation that would tax the income from a big chunk of the municipal securities that are sold after this year.

The U.S. House of Representatives' bill would pull tax-exemption from refinancings known as advance refundings and from private activity bonds, which are used by colleges, hospitals and airports, among other borrowers. The Senate's would leave private activity bonds intact, though that could change when the two chambers negotiate a compromise.

Borrowers aren't waiting to see. Wheaton College, the Norton, Massachusetts-based liberal arts institution, plans to offer \$56 million revenue bonds next week, some of which will be used for an advance refunding. If the deal was sold at taxable yields, the higher interest costs would be equivalent to about \$200 of additional tuition per year from each of its students under a 30-year maturity, said Brian Douglas, executive vice president for finance and administration.

The college was planning to sell the bonds anyway, but once tax reform came under discussion, the university decided to move quickly, he said.

Wheaton, which has over 1,650 students, is rated A3 by Moody's Investors Service. Taxable A-rated revenue bonds with a five-year maturity would cost about 90 basis points more than their tax-exempt counterparts, according to data compiled by Bloomberg.

Over 65 percent of students receive need-based aid at Wheaton. Annual tuition cost \$50,520 for the 2017-18 year. "We try every way we can to lower the costs for our students," Douglas said, "and this change would have the opposite effect, it would force us to increase costs for students."

Other entities face a similar hike in borrowing costs. Dennis Hunt, executive vice president and manager of public finance at Stephens Inc., said municipalities that sell tax-exempt bonds with a top yield of 4 percent would pay 5.5 percent if bondholders had to pay tax on the income.

If the proposed limit on tax-exempt private activity bonds goes through, many issuers would likely

curb their borrowing because of the the higher interest rates, he said. That would cut into spending on infrastructure projects, putting the tax bill at odds with President Donald Trump's stated goal of pumping more money into public works.

"It would be a very significant difference," he said.

## **Bloomberg Markets**

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