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Securitized Muni Bonds Can Make Good Sense.

The assertion that Chicago and Connecticut are borrowing a “debt trick from Puerto Rico” is misguided.

Regarding your editorial “Have They Got a Bond for You” (Nov. 21 and the Letters of Nov. 28): The assertion that Chicago and Connecticut are borrowing a “debt trick from Puerto Rico” is misguided. Municipalities and states across America have used secured debt offerings to access the capital markets at a lower cost than unsecured bonds for decades.

Secured debt backed by a dedicated revenue stream, such as local sales taxes, typically comes with a higher rating and lower interest rate than unsecured debt. Chicago’s new tax-backed bond issuance is expected to be 200 to 300 basis points cheaper than its general obligation debt, saving the city and its citizenry up to $100 million a year.

Investors will accept a lower interest rate in exchange for property interest in collateral that will remain intact following any default or bankruptcy filing. In fact, effective use of tax-backed secured debt, combined with renewed emphasis on fiscal discipline, allowed Washington, D.C., and New York City to raise affordable capital following downturns and avoid bankruptcy restructurings.

Your editorial misrepresents the separate collateral pool for Puerto Rico’s Cofina bondholders and overlooks that the VAT proposed by the island’s last governor was voted down by the legislature before it ever went into effect. The editorial also omits that Detroit’s secured creditors received par recoveries precisely because our laws protect property interests.

We cannot forget that not all bonds are created equal.

by Matt Rodrigue

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