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Maine Forgets the Unwritten Rules of Muni-Bond Sales: Joe Mysak

- **Governor won't approve GO bonds sold at auction on June 12**
- **AA-rated bonds had been priced closer to triple-A scale**

This isn't how the municipal-bond market is supposed to work.

On June 12, Maine sold $112.86 million of general-obligation debt at auction. The securities were rated Aa2 by Moody's Investors Service and AA by S&P Global Ratings, the third-highest grades. When the bids were calculated, Wells Fargo & Co. won the $97.4 million in tax-exempts and Citigroup Inc. won the $15.4 million in taxables, and the state did very well.

The yields on the tax-exempt bonds maturing in 10 years priced to yield 9.9 basis points over comparable AAA debt. The taxables due in 2019 yielded just 13.4 basis points over Treasuries, while those due in 2020 came in even better at 6.7 basis points more than the federal government pays to borrow.

But last week, Governor Paul LePage — a pugnacious Republican first elected in the big Tea Party wave of 2010 — told State Treasurer Terry Hayes that he was having second thoughts and wouldn't approve the sale, according to the Bangor Daily News. On June 25, the newspaper reported that the governor wasn't approving the sale because of "excessive 11th hour legislative spending."

Which means that any investors who had purchased these bonds from the banks got to read this supplement to the official statement: "Notwithstanding the sale of the Bonds on June 12, the Governor has subsequently determined that he does not want the Bonds to be issued at this time. Accordingly, the State will not deliver the Bonds and related documents as planned on June 26. Any future issuance of the Bonds, if any, will be pursuant to a new offering and sale thereof."

No.

Just: No. This isn't how the municipal bond market is supposed to work.

Yes, every once in a long while an issuer will choose to reject all the bids at an auction on the day of a sale.

And yes, buyers have been known to rebel and force the cancellation of a sale. This occurred in April of 2015 after Louisiana State University said budget cuts might force it into "exigency," a kind of collegiate restructuring, that took investors by surprise after the deal had gone through.

And yes, every once in a long while Wall Street itself will force the cancellation of a sale, which happened in December of 1986 when the Kansas Highway Department planned to borrow money to call some bonds that it had sold in January of 1985 and then escrowed "to maturity" in November of 1985.

But canceling the sale of general-obligation bonds approved by voters because of a political whim, because of some sort of spat between the legislative and executive branches of government? That’s not done. That’s against the unwritten rules.

And there are some. By pulling on this one thread, you threaten to unravel a very complicated fabric. The whole public finance business is based upon reputation, trust and strict adherence to law and convention.

Perhaps the biggest unwritten rule is not to tease, vex, antagonize, unsettle or otherwise discomfit the buyers. What happens next? As The Bond Buyer put it on June 25, the cancellation “may cost the state next time.” The cynical part of me says that won’t happen, because the market has no memory and because actions can have no consequences.

The more traditional part of me, though, says this is very different and those 10 bps spreads over triple-A should maybe be 40 or 50 bps. Why? Because inexplicably, Maine forgot the rules they’ve always abided by. Or maybe the underwriters will forget to show up altogether on the next day of sale.

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(This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.)