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New York Auctions \$1.8 Billion Sales Tax Debt.

- **Second-biggest competitive sale of municipal debt in history**
- **Banks won't have problem clearing the deal, says Fiera's Laing**

New York State met eager demand for its debt as it auctioned \$1.8 billion of sales-tax bonds Wednesday, the second-biggest competitive sale in municipal market history, according to data compiled by Bloomberg.

Despite its size, the deal was easily digested because of a healthy demand for New York state sales tax bonds in a market starved for paper. Almost \$5 billion in debt issued by New York state and local governments is set to be called or mature over the next 30 days, \$1.4 billion more than the fixed-rated debt they plan to sell in that period, according to data compiled by Bloomberg.

"New York is picking a good time to bring this deal," said Guy Davidson, director of municipal investments at AllianceBernstein. "It's a sellers market."

Wednesday's sale was second in size only to a \$1.84 billion offering by the New York State Urban Development Corporation last year.

League Tables

JPMorgan won \$372.4 million of bonds maturing 2019 through 2023 issued through the Dormitory Authority of the State of New York. Bank of America won \$854 million of debt maturing 2024 through 2036. Morgan Stanley won \$492.4 million of debt maturing 2037 through 2048. New York also sold a \$74 million tranche of taxable debt.

Bonds maturing in March 2028 were priced to yield 0.08 percentage points, or 8 basis points more than top-rated debt of the same maturity, according to data compiled by Bloomberg. A New York sales-tax bond with the same maturity traded at 11 basis points over AAA rated debt on June 14.

Banks, looking to get a strong start in the second-half of the year in rankings for competitive underwriting, bid aggressively, said Bryan Laing, vice president of credit research at Fiera Capital Inc.

Banks "are looking forward to those league tables, particularly in a year when the supply outlook is less certain than other years," Laing said. "They're not going to have a problem clearing the deal with investors either, because the demand is there."

Proceeds of the sales tax bond sale, rated Aa1 by Moody's Investors Service, the second-highest investment grade, will finance capital projects for highways, bridges, rail and educational facilities.

Bond Backing

The bonds are backed by a dedication of 1 percent of New York's 4 percent state sales tax, which is expected to yield \$14.1 billion in fiscal 2019, according to Moody's. The state budget office projects

the tax dedication will provide coverage of 3.6 times debt service in fiscal 2018 based on \$3.42 billion of dedicated receipts and maximum annual debt service, including parity debt, of about \$942 million, Moody's said.

Sales tax receipts have grown at a 4.0 percent compound annual growth rate since 2010 and the state budget office projects growth of 3.9 percent from fiscal 2019 to 2022. The projections will "likely prove optimistic," because the estimate doesn't provide for an economic downturn during the period, according to Moody's.

Last month's U.S. Supreme Court decision which expanded the ability of state and local governments to collect billions of dollars in sales taxes from online retailers, will boost revenue, Laing said.

Bloomberg Markets

By Martin Z Braun

July 11, 2018, 10:40 AM PDT

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