Bond Case Briefs

Municipal Finance Law Since 1971

Big California, NYC Bond Deals Test Demand for SALT Tax Havens.

- **'Demand has been huge' as residents see their new tax bills**
- **New York City and California deals total around $3.3 billion**

Wealthy investors from big coastal states will find an opportunity for refuge from the federal tax overhaul as California and New York City sell about $3.3 billion of tax-free bonds over the next two days.

Key Insights:

- The federal cap on state and local tax deductions has hit high-net-worth residents of states like New York and California hard. Analysts say they are now looking for investments that will help shelter some of their income, which has spurred demand for municipal bonds in their home states.
- Investors have poured $10 billion over eight straight weeks into municipal-bond mutual funds, according to Lipper US Fund Flows data.
- Supply of new municipal securities is also depressed because of a more direct effect of the federal tax overhaul: it banned a kind of refinancing known as advance refundings, contributing to a steep slowdown in new sales last year.
- While local governments have issued nearly $50 billion of new debt during the first two months of the year, that's less than what was sold during the same period in 2015, 2016 and 2017, according to data compiled by Bloomberg.
- Demand outstripping supply had led to high prices of munis, with 10-year benchmark state and local government yields on Friday hitting the lowest against Treasuries since Bloomberg's records began in 2001.

California's $2.3 Billion Deal

- Individual investors on Tuesday can place orders for the state's biggest general-obligation deal since August 2017, followed by institutional firms Wednesday. The offering is also the biggest for the municipal market in six months.
- Yields on California's bonds have fallen close to those on top-rated securities, spurred by brisk demand and fiscal gains that have left the government with swelling surpluses. The state's 10-year bonds yield about 2.23 percent, or 0.08 percentage point over the benchmark. That gap, a key measure of perceived risk, is down from 0.32 percentage point two years ago.

New York City's $986 Million Deal

- The city's sale comes after Friday's rating upgrade to Aa1, the second-highest level, by Moody's Investors Service. Individual investors are getting the first crack, with the bonds initially offered for yields of 0.05 percentage point to 0.20 percentage point over the benchmark, according to a person familiar with the matter.
- Pricing for institutional buyers will end Wednesday
- As with California, yields on the city's bonds have fallen close to those on top-rated securities. On

Thursday, the gap over the benchmark was just 0.07 percentage point in trading of already issued securities, the lowest since at least 2013, according to Bloomberg BVAL indexes.

Expectations

- California and New York will easily sell their deals, said Dora Lee, vice president at Belle Haven Investments.
- “Demand has been huge,” she said. “Everyone is getting their tax bills and realizing that munis are a very attractive place to be.”

Bloomberg Markets

By Romy Varghese

March 5, 2019, 5:19 AM PST

— With assistance by Danielle Moran, and Martin Z Braun