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Municipal Bonds Are in High Demand and Short Supply. Where Investors Should Look.

Everything is pricey in the San Francisco Bay area—even municipal bonds.

High prices are a good thing if you're a seller, like Sophia Skoda. She was in New York to help oversee a $162 million green bond sale by East Bay Municipal Utility District, the public water utility that employs her as its finance director. As underwriters at JPMorgan Chase tallied up the orders, they joked about increasing the offering size. Investors put in orders for 5.5 times the amount of the bonds on offer; for any corporate borrower, that would be a sign to borrow more.

But like most municipal borrowers, East Bay MUD isn't that flexible. The utility, which has been borrowing since 1923, plans debt sales years ahead of time. "We definitely benefited from the lack of paper in the California market right now," Skoda said. "We're very, very, very happy."

The two-year bonds were sold with a yield of 1.03%, below the AAA-rated muni benchmark yield of 1.31%. In theory, East Bay MUD's yields should be higher than the benchmark, since it's rated one notch below AAA.

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