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Muni OS Boilerplate Headscratcher: Price Is ‘Priced To The Call Date’?

On July 31, Sarasota County, Florida, priced \$10.215 million refunding bonds, with annual tranches ranging from 2020 to 2038. The bonds will be callable on Oct. 1, 2029. There is an asterisk on the official statement indicating that the 3% 2038 tranche, whose dollar price of 101.925, is “priced to the first optional redemption date.”

The phrase “priced to the first optional redemption date” is usually associated with yields. This is consistent with the yield-to-worst quoting convention for munis, (YTW) being the lower of yield-t-call (YTC) and yield-to-maturity (YTM). But what does it mean for a dollar price to be “priced to the first optional redemption date”?

Muni professionals’ knee-jerk response is that the phrase is clear, until they attempt to explain it. And then they realize that it is nonsensical.

The phrase, “priced to the first optional redemption date”, is intended for yields, so that they can be converted to dollar prices. Unfortunately, mislabeling dollar prices, i.e. indicating that they are “priced to the first optional redemption date” is surprisingly common in official statements. It is undoubtedly attributable to boilerplating — the same error is passed on by generations of junior associates of investment banks and bond counsels.

To be fair, the Sarasota deal also displays a 2.78% YTC corresponding to the 101.925 dollar price; however, there is no asterisk indicating that 2.78% is a YTC. In even more egregious cases there is only a dollar price, and a footnote indicating that the bond is priced to the call date, without a corresponding YTC.

See, for example, issues by the city of Bridgeport going back for several years — they show dollar prices “priced to the first optional redemption date,” but without the corresponding yields. For those who would like to dig deeper into this problem with official statements, MuniOS.com is a wonderful free resource.

The Municipal Securities Rulemaking Board has been making strides toward increasing transparency and improving disclosure in the muni market. In spite of recognizable advances, there are surprisingly many instances of superfluous and confusing pricing information in official statements. By imposing a standard format, the MSRB could eliminate such sloppiness.

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