Bond Case Briefs

Municipal Finance Law Since 1971

U.S. States Won't Join Century Bond Club Even If They Want To.

- **California, New York have debt maturities limited by law**
- **Citigroup says even those who could may be 'uncomfortable'**

The U.S. Treasury is considering whether to join a number of European governments that have embarked on a bond-market experiment by selling debt that doesn't come due for a century.

But don't expect America's state governments to follow suit.

Even if they wanted to put off repaying their debts for 100 years, many states are prevented from doing so because of constitutional or statutory limits that impose a type of fiscal discipline.

In California, the nation's biggest municipal-bond issuer, the constitution bars the state from selling debt that matures after 50 years. In New York, statute limits that to 30 years. For the most part, Hawaii can't borrow for longer than 25. Utah and Delaware are capped at two decades. And in Maryland, it's even shorter: general-obligation bonds have to mature in 15 years or less.

"That's not an option for us even if we wanted to consider it," said Christian Lund, Maryland's debt management director.

That suggests that so-called century bonds will remain a rare presence in the $3.8 trillion municipal-securities market, despite a recent uptick in such sales by universities. Both New Jersey's Rutgers University and the University of Virginia this year sold bonds that don't mature until 2119.

Martin Luby, a public finance professor at the University of Texas at Austin's Lyndon B. Johnson School of Public Affairs, said states are concerned about the injustice of kicking the bill for today's public works projects to unborn generations. And states typically try to structure bond issues so they're not still paying off the debt even after the project it financed is no longer in use.

"States don't want to burden future taxpayers," he said. "There is also this uncertainty on whether they are going to be able to pay for this asset in 50 years or 100 years."

Citigroup Inc., one of the biggest underwriters, doesn't expect a surge of century bond issuance even from governments that may have legal authority to do so, the bank's analysts led by Vikram Rai said in a note to clients Monday. Rai said "most issuers will be uncomfortable taking such a strident view on duration."

Tennessee is one of them. The state doesn't have a constitutional barrier to selling extremely long-dated debt. But it does have a policy that limits the maturity of its bonds to 20 years after they're issued or a related project is completed, whichever is soonest, unless state officials decide otherwise.

When asked if Tennessee would consider joining the century bond club, John Dunn, a spokesman for the state comptroller, was succinct in his emailed response: “This is an easy one for the state of Tennessee. The answer is NO.”

Bloomberg Markets

By Danielle Moran

September 24, 2019, 9:29 AM PDT

— With assistance by Romy Varghese