Bond Case Briefs

Municipal Finance Law Since 1971

Washington, D.C. Joins Muni Selling Spree With Record Bond Deal.

- **City is selling about $1 billion of bonds on Wednesday**
- **Muni sales increase 20% this year as interest rates fall**

Washington, D.C., is planning its largest-ever bond sale on Wednesday, joining state and local governments that are inundating the market with debt to seize on interest rates that are holding near a more than half-century low.

The nation's capital plans to sell about $1 billion of bonds to refinance outstanding debt and pump some money into a community revitalization project. It comes amid a flood of activity from municipalities that's pushed the amount of bond sales this year to $338 billion, a 20% increase over the same period last year, according to data compiled by Bloomberg.

Washington's finances have benefited from the city's economic boom, marking a stark shift from the period when its chronic fiscal strains left it under the control of a federally appointed management board from 1995 to 2001. Its population has swelled by about 17% since 2010 and its median household income of about $78,000 a year is some $20,000 more than the broader U.S.

The improvement has been recognized by Wall Street. S&P Global Ratings grades the new tax-backed securities AAA. Moody's Investors Service rates the bonds at its second highest level, one step below the city overall.

The city is utilizing that standing to make changes to "an unusually strong set aside structure" in its bond contracts that has required the city to put cash in escrow to make interest and principal payments nearly a year before they are due, according to Moody's analyst Nicholas Samuels. With that change — which Moody's expects to occur by 2021 — the city will set aside funds just four months ahead of payments.

District of Columbia bonds trading in line with AAA benchmark
These changes could free $80 million or more for the city, said Bruno Fernandes, Washington's deputy chief financial officer and treasurer.

"We've been wanting to take advantage of our ratings," said Fernandes. "That's really why we took the time to modernize the agreement. There's been some drastic changes in terms of improvement of the district and improvement of the credit rating."

A $944.8 million chunk of the bond sale is tax-exempt and will be used to refinance some of the city's outstanding debt and pay for projects, according to documents released ahead of the offering. The remaining $60 million will be taxable, with some set aside to revamp public housing facilities and provide those communities with increased social services.

The district is selling the bonds in an environment of high demand from investors, who have dumped record amounts of cash into the municipal market as the cap on state and local property deductions leaves some investors looking for other ways to shelter their income. Municipal-bond mutual funds have seen an influx of $54.1 billion over a 44-week period this year, shattering a record set over a 64-week stretch between 2009 and 2010, according to Refinitiv Lipper.

The Washington bonds could be attractive for investors looking for security as the record-long economic expansion raises speculation about when the next recession will occur, said Karel Citroen, the head of municipal-bond research at Conning. Similar bonds offered by the district last traded at an average yield of 1.56%, four basis points below the top-rated benchmark, according to data compiled by Bloomberg.

There's a strong argument for looking at "high credit quality munis, especially at this part of the cycle when you want to put your money somewhere you're going to feel safe," Citroen said. "It's very good to look at what credits you believe are well positioned during the next downturn."

Bloomberg Markets

By Fola Akinnibi

November 12, 2019, 5:00 AM PST