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[The Bond Is in the Mail: Muni Market's New Way Around Trump Ban.]

- **So-called forward delivery bonds used to lock in low rates**
- **It's one way to refinance after 2017 law yanked subsidies**

Anyone who agreed to buy the bonds sold by Washington state this month has a long wait until they see a return on their investment: the nearly $400 million of securities won't be delivered until March 2021.

The delay is the result of an increasingly popular maneuver that states and cities are using to get around a provision of President Donald Trump's 2017 tax-cut law, which stripped them of their ability to sell tax-exempt bonds to refinance debt that can't yet be called back from investors.

But with rates hovering near more than half-century lows, local governments are eager to refinance. So they're selling bonds now that investors won't receive until months — or even years — later when the outstanding securities can be bought back. There have been $10 billion of such municipal bonds sold this year, the most since at least 2005, with $1.4 billion in the last month alone, according to data compiled by Bloomberg.

Illinois's Metropolitan Pier and Exposition Authority is planning next week to sell $923 million in bonds that won't be delivered to investors until March 2020. Washington D.C.'s airport authority is selling $364 million in bonds Dec. 12. Those won't settle until July.

"The interest rates are just so favorable right now," said Larita Clark, chief financial officer of the Metropolitan Pier and Exposition Authority, which expects to save as much as $150 million. "We just wanted to lock in those rates."

After the Federal Reserve cut rates for a third time this year, Henry Dachowitz, the chief financial officer for Norwalk, Connecticut, decided to sell about $18 million of forward delivery bonds. He had been talking to multiple underwriters who were marketing the structure.

"The forward structure was new to me. I explored it and when I saw the present value savings were almost $2 million, it was compelling," he said in an interview. "I thought interest rates if anything would go up. It was time to pull the trigger after the last rate cut."

Washington delayed the delivery date longer than any other borrower this year, according to data compiled by Bloomberg. The nearly year-and-a-half wait did come with a price: the 10-year bonds were priced with a 2.3% yield, or 73 basis points more than top rated debt. Comparatively, the state in September sold 10-year bonds for 1.47%, a 16 basis-point spread.

Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Group Inc., said the deals are largely suited to bigger institutional investors, given the risks that could crop up between when the bonds are sold and when they're delivered.

“The funds definitely have the opportunity to do this. For them it comes down to spread,” she said. “There is appetite at a price. That speaks to how our market continues to develop.”

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