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California Bond Sale Signals Hope for Muni Market Normalcy.

- **Sale results are 'sunshine with a pot of gold at the end'**
- **The $1.4 billion sale is the biggest since the market retreat**

California's pricing of more than $1 billion of debt may be a sign that the municipal-bond market is returning to normal.

On Thursday, California sold $1.4 billion of general obligation bonds in the largest offering in the primary market since it effectively shut down last month amid a massive sell-off that spooked investors and crimped the ability of states and local governments to raise money.

Bank of America Corp managed the negotiated sale, pricing 10-year debt with a 5% coupon at 1.4% yield. Proceeds will be used to fund public works projects and to refinance higher yielding debt.

California increased the size of the borrowing from an initial $1 billion because of strong demand, selling $446 million more of refunding bonds than had been anticipated. That saves the state $334 million in debt service costs over the next 20 years, according to a statement from state Treasurer Fiona Ma.

"This is a great result for the State of California," Ma said. "We were anxious about the sale heading into this dreary market. We ended up getting sunshine with a pot of gold at the end. I think this is a good sign for the market."

Investors agree. Wesly Pate, a portfolio manager at Income Research & Management in Boston, said the California sale is an "important step" in having the market return to normal.

"Issuance will beget issuance," he said in an interview on Friday. "One or two deals won't get the ball rolling but we have to start somewhere. Well known blue-chip equivalent issuers in the muni market will access it first and once that starts to occur you will get things moving in the right direction and return to a more normalized issuance market."

California's bond sale came the same day municipal bond mutual funds reported an inflow of cash for the week ended Wednesday, snapping six straight weeks of withdrawals during the record setting retreat by investors.

"The market is open," Pate said. "Participants aren't running from the market…they are present and they are willing to buy bonds as long as it's a straight-forward credit."

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By Danielle Moran

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— With assistance by Sophia Sung

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