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Muni-Market Doomsday Preppers Buy Basics: Water and Power Bonds.

- **So-called essential service bonds provide refuge in crises**
- **Unlikely to be hit as hard as cities, airports, civic centers**

No matter how bad the economic carnage gets, Americans will still need water and electricity.

That's been a classic fall-back strategy for municipal-debt investors hunting for a refuge during times of turmoil, like the pandemic that's now threatening to push states and cities into the worst fiscal crisis in decades.

So some money managers are moving into bonds backed by the revenue of water, sewer and electricity systems — services that residents effectively can't do without. That's made them one of the few reliable places to hide in the $3.9 trillion market that finances states and cities, toll roads, civic centers, hospitals and airports, all off which are being hit hard by the steep economic slowdown.

Sheila May, director of municipal-bond research at GW&K Investment Management LLC, said her firm has been looking for bonds that will "hold up" better, finding that so-called essential service debt may be a way to avoid some of the new risks that the pandemic poses.

"This virus doesn't impact the need to have water and power and so on," she said.

The shift to such sectors comes as credit is starting to matter again in the state and local government bond market, where only months ago investors were demanding little extra yield to own even the riskiest securities. But with unemployment surging, tourism virtually non-existent and massive deficits forecast for states, S&P Global Ratings changed its outlook on all public finance sectors to negative earlier this month.

Spartanburg, South Carolina, which this month sold bonds on behalf of its water system, said it hasn't seen a huge hit from shutdowns in the area, according to bond documents. Its April 20 reading of meters for its largest commercial and industrial clients showed that usage has held steady, the documents said. One of the clients that did reduce usage, however, was Wofford College, which sent students home.

That doesn't mean such systems are exempt from financial stress. Pennichuck Corp., a water utility company in New Hampshire, warned that its revenues could be affected if customers start missing payments, according to bond documents. Because the utility is restricted from turning off customers' water to force them to pay, that could hurt its earnings, it said. A subsidiary of Pennichuck sold municipal bonds earlier this month.

Yet, even debt issued for the riskiest electric power companies and water and sewer utilities has avoided the steep losses that the broader high-yield muni market has seen.

Junk-rated water and sewer bonds have fallen 3% this year, while high-yield municipals have dropped almost 10%, according to Bloomberg Barclays indexes. Overall, electric system backed debt has lost 0.7% this year while water and sewer bonds have been effectively unchanged, better than the 1.6% loss for the broader municipal market.

Franklin Templeton said in a report last week that it viewed water and sewer municipal bonds favorably. But the firm noted that there are still risks that the pandemic poses given that business shutdowns could affect revenues.

While both water and power bonds also face the risk that residential customers will fail to pay their utility bills, they are usually only skipped as a last resort.

May, the analyst at GW&K, said those bills typically represent a small part of people's income, which will help reduce delinquencies.

"It's generally not one of the things that people can't afford in this type of environment," she said.

Bloomberg Markets

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April 29, 2020, 10:39 AM PDT