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N.Y. Paying JPMorgan More Than Others Shows Loan-Market Pitfalls.

- **New York paid 2.05% rate on short-term note sale last month**
- **Hawaii, Rhode Island and Massachusetts borrowed for less**

With tax revenue plummeting by \$8 billion in April, New York needed cash, quickly.

At the end of May, the state needed to pay \$4 billion to school districts and \$1.8 billion to Medicaid. Borrowing money in a public offering didn't seem like a good option, with record volatility having shut down much of the market as investors yanked out their cash. So the state at the epicenter of the coronavirus pandemic borrowed \$1 billion directly from JPMorgan Chase & Co., the country's biggest bank.

It came at a price. The 2.05% tax-exempt interest rate JPMorgan charged New York for the seven-month loan was more than what three other states with similar — or lower — credit ratings paid to borrow from rival banks to cover temporary cash shortfalls.

In April, Bank of America Corp. purchased \$600 million of Hawaii's taxable notes maturing in 12 and 18 months for yields of 1.46% and 1.76%, respectively, the equivalent of 1.15% and 1.39% if the securities were tax-free like New York's.

In March and April, Rhode Island arranged \$300 million in credit agreements with Bank of America and Santander Bank at floating-tax exempt rates that haven't exceeded 1.65%. And last month, Massachusetts secured a \$1.75 billion credit line with a syndicate of lenders led by Bank of America at a minimum taxable rate of 2.25%, or 1.78% on a tax-exempt basis, according to a spokesman for Massachusetts Treasurer Deborah Goldberg.

Still, New York, which has a AA+ credit rating, was able to get lower borrowing costs than its neighbor, New Jersey, which at A- has the second-lowest rating among US states. It is paying 4% on \$1.5 billion of notes purchased by Bank of America and The Vanguard Group that mature in September.

The outcomes illustrate the divergent pricing in the business of extending direct loans to states and cities, which boomed as governments raced to raise cash just as the economic havoc caused by the coronavirus was rattling the public bond markets.

Short-rates surged in wake of shutdowns amid cash crisis

Had New York borrowed at Hawaii's tax-exempt equivalent rates of 1.15% and 1.39%, it would have saved \$6.6 million to \$9 million, enough to pay the annual salaries of 78 to 107 teachers, based on New York's average teachers' salary of \$84,230. New York would have saved \$2.7 million borrowing at the same rate as Massachusetts.

JPMorgan provided the best terms to the Dormitory Authority of the State of New York, which issued the \$1 billion notes and solicited bids from nine banks in the agency's underwriting syndicate, said

Jeffrey Gordon, a spokesman for the agency.

Gordon didn't provide the terms offered by the other banks. He said it was misleading to compare other states to New York, which received a competitive rate given the size of the deal and market conditions, and that the state is eligible to be reimbursed for the interest under federal stimulus legislation.

"New York State was the epicenter of the coronavirus pandemic, with more deaths and cases than any other state, and it is terribly misleading to compare New York's much larger transaction in May to smaller borrowings done in March and April by states that were not similarly situated," Gordon said in an email.

Jessica Francisco, a JPMorgan spokeswoman, declined to comment.

New York is among cash-strapped governments, hospitals and universities that turned directly to banks to cover temporary cash shortfalls and boost liquidity in the months after states shuttered non-essential businesses to contain the pandemic. In mid-March, yields on municipal bonds maturing in one year skyrocketed to 2.8%, only to then tumble back toward zero as the Federal Reserve's emergency lending program restored investors' confidence.

The number of municipal securities filings that report new financial obligations — a category that includes bank loans — has increased dramatically this year to 471 in May, according to Municipal Securities Rulemaking Board data, more than twice what it was in February.

New York needed the money primarily because of a revenue shortfall driven by a three-month delay in the income-tax filing deadline to July 15. New York state's tax revenue plummeted 68.4% in April and 19.7% in May from the prior year — or \$8.7 billion — as the coronavirus lockdowns and the filing extension took a toll on state coffers.

To bridge the gap, New York lawmakers authorized \$11 billion in new state borrowing for the fiscal year that began April 1, consisting of as much as \$8 billion in tax-backed revenue or bond anticipation notes and \$3 billion in credit lines or revolving loans.

In a sign of how much the municipal market has healed since March and April, earlier this month, New York's Dormitory Authority issued \$3.4 billion notes maturing in nine months in a public offering at an interest rate of 0.55%.

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