
LA Metro Prices Its Biggest Bond Deal Ever as Ridership Plunges.

- **Authority is offering 10-year bonds at preliminary 0.79% yield**
- **Muni market favors highly-rated issuers in seeking tax havens**

The Los Angeles County Metropolitan Transportation Authority is seeing half the ridership it had a year ago because of the coronavirus pandemic, but that crisis isn't deterring its biggest bond deal ever.

The agency known as Metro is selling about $1.35 billion in tax-free revenue debt Tuesday to take advantage of historically low rates. Intervention by the Federal Reserve to prevent a liquidity crisis among municipalities has built up confidence among buyers, who are also favoring highly-rated issuers especially as they seek to shield income from taxes levied by California and other high-tax states.

"It's a good time to enter the market," said John Ceffalio, municipal credit research analyst at AllianceBernstein, which has about $50 billion in municipal securities under management. "People are looking for high-quality paper, particularly high-quality California paper."

Debt from California issuers is beating that of the overall market, returning 4.7% year-to-date compared with the market's 4.34%, Bloomberg Barclays indexes show.

The agency is issuing the debt to refinance Transportation Infrastructure Finance and Innovation Act loans covering improvements and extensions to its rail system. Its construction projects continue despite the pandemic. The authority is offering $1.35 billion of tax-exempt bonds for yields ranging from 0.14% to 1.36% on debt maturing from 2023 to 2037, according to a preliminary pricing wire viewed by Bloomberg.

"Based on what we have seen with other California offerings during the last month, we expect good investor reception," Metro Treasurer Donna Mills said in a statement.

Metro isn't the only transit system that's coming to market during the pandemic. In May, New York's Metropolitan Transportation Authority, the nation's largest mass transit system, sold two bond offerings, and upsized both deals to meet buyer demand. The MTA, like Metro, is also struggling with declining ridership and falling revenue.

Operating buses, subways and rail, Metro spans 1,433 square miles in Los Angeles County, the nation's most populous and also one hit hard by the coronavirus outbreak. Restrictions on economic activity first occurred in March and while some were rolled back, others were reimposed as cases rose.

In June, 14.3 million people rode the system, compared with 29.4 million in June 2019, Metro's figures show. That month, collections of sales taxes used to back its bonds dropped 14% from the previous year, according to documents circulated to investors ahead of the sale. The agency said the sales tax receipts for the year ending in June may decline anywhere between 2% to 8% from the 2019 collections.

Still, even with the revenue drop, there will be more than enough to cover debt service, a factor in why the bonds carry a AA rating from S&P Global Ratings, the third-highest investment grade. The company has the rating on a negative outlook, however, as it does on other transit systems, because of the pandemic.

“Even if you were to have a hit worse than the last recession, bondholders would still be comfortable,” said Ceffalio, who said his firm is looking at the deal.

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