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Billion-Dollar Muni Deals a Rarity as Free Cash, Revenue Pile Up.

- **Average muni offering was \$34 million from Jan. through July**
- **15 deals of \$1 billion or more is fraction of corporate tally**

U.S. states and localities have sold 15 bond deals of at least \$1 billion this year, on pace to surpass the total of 18 offered in 2020 and potentially even challenge the record 26 issued in 2018, data compiled by Bloomberg show.

And yet, it's still a far cry from the hundreds of megadeals sold in the world of U.S. corporate bonds this year. Muni investors may be looking to the corporate-debt space with envy, amid a dearth of trading activity in the state and local-government market.

The conditions are right: The amount that municipalities are paying to borrow is at rock-bottom generational lows. Their credit has never been better because it has been rendered almost irrelevant by free money from the federal government aimed at bolstering the economic rebound from the pandemic. And investor demand is seemingly insatiable.

Two primary forces are holding them back from issuing larger sums, analysts say. The first is, they don't need to, in part as many states and cities are refilling their coffers more quickly than they'd anticipated.

"Tax revenues have surged with the economy re-opening this year and when combined with the stimulus funds from the American Families Plan and more coming from the Infrastructure Investment and Jobs Act, they're simply flush with cash," said Matt Buscone, co-head of portfolio management at Breckinridge Capital, in an email last week.

Some municipalities may use part of the federal money for deferred maintenance; others will tap it for debt reduction and fund more of their capital budgets on a pay-as-you-go basis, Buscone added.

Size Mismatch

A second key reason why states and localities aren't bringing more extra-large deals is that size matters.

It's "primarily attributable to the size of corporations versus municipalities," said Cooper Howard, director of fixed-income strategy at the Schwab Center for Financial Research. "There are many more bonds in the muni index, but they are much smaller on average than the corporate market."

To illustrate, he said there are a bit fewer than 7,000 bonds in the Bloomberg Corporate Bond Index, compared to more than 55,000 in the Bloomberg Municipal Bond Index. The size of the average bond in the muni index is a little over \$30 million, compared with around \$1 billion for the corporate index, according to Howard.

The average size of new muni deals was \$34 million from January to July, according to the Municipal Securities Rulemaking Board. More than half were for \$10 million or less.

So for every Texas Municipal Gas Acquisition & Supply Corp III (which sold \$1.06 billion in bonds in January) or California State University (\$1.66 billion in July), there are hundreds of issuers more like Cimarron, Kansas (population around 2200; borrowed \$975,000 in February), and Pomeroy, Iowa (population roughly 660, borrowed \$995,000 in March).

But a more fundamental reason may be at work, which is that most of the nation's 90,126 units of government — the tally in the Census of Governments 2017 data — don't seem to like debt.

That may explain why they pay some of it off every year and why 31% of it will mature or be called by the end of 2026, according to a study by Municipal Market Analytics.

Bloomberg Markets

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August 31, 2021

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