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Sales of Municipal Bonds That Won't Deliver for Months Reach Record.

- **State and local forward delivery sales at \$15 billion in 2021**
- **Issuers look for savings as investors seek yield: Parametric**

State and local governments seeking savings from historically low interest rates before a series of expected hikes in 2022 are driving record sales of bonds that won't deliver for several months.

Sales of municipal bonds with a so-called forward delivery structure — meaning borrowers can lock in rates months before accruing interest owed to investors — reached about \$15 billion in 2021, which is more than double the \$6.7 billion this time last year and an all-time high, according to data compiled by Bloomberg.

The type of bond has grown in popularity ever since issuers in the \$4 trillion municipal bond market were barred from a key refinancing tactic known as tax-exempt advance refunding in a 2017 tax change. But issuance this year has reached a fever pitch amid broad anticipation of higher refinancing costs next year. Sales have come from issuers in California, Maine, New Jersey, Maryland, Ohio, Illinois, Oklahoma, Arizona and Hawaii.

"They are looking for more creative ways to lock in savings," said Brian Barney, a managing director and portfolio manager for Parametric Portfolio Associates, which holds \$43 billion in muni assets. "If rates remain relatively low, they will continue to use it potentially to this extent. If they do tick higher, then I expect we see this forward issuance number come down."

The Federal Reserve on Wednesday signaled that a series of interest-rate increases are coming down the pipeline, starting with three hikes in 2022. Barney said the market has already priced in most of the potential rate increases, and if they don't move too much, issuer interest in forward delivery will continue. In the meantime, the bonds should also remain attractive for investors in a low interest environment as they offer some additional yield, Barney said.

"The market has gotten efficient at pricing the per-month spread (discount) based on delayed settlement and buyers have grown more comfortable with the process," Kimberly Olsan, senior vice president of municipal bond trading at FHN Financial, said in an email. "These structures could be expected to continue as long as restoring advance refundings are off the table."

The Maine Turnpike Authority issued \$102.34 million forward delivery bonds to refund \$124.9 million from a 2012 series, according to an emailed statement from Douglas Davidson, the agency's chief financial officer and treasurer. The savings from the sale and redemption will strengthen the authority's financial ratios, and the issuance "freed up" about \$23 million under its legislative bond cap, he said.

"The authority chose to use the forward delivery option in order to lock in savings at the current interest rates," Davidson said. "The authority has been concerned with high inflation and the uncertainty of future interest rates."

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By Shruti Singh

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