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NY's MTA Mulls Replacing Build America Bonds With Lower-Cost Debt.

- **Transit agency has $3.73 billion of BABs outstanding**
- **MTA seeks to use special provision to refund BABs for savings**

New York's Metropolitan Transportation Authority is considering refunding at least a portion of its $3.73 billion of taxable Build America Bonds into tax-exempt debt, even as some investors push back against such transactions.

The MTA's board is set to meet this Wednesday and could give the transit agency the authority to refinance its BABs if officials see an opportunity to reduce debt-service costs, according to MTA board documents. The transit agency, which runs New York City's subways, buses and commuter rail lines, has yet to announce a potential refunding sale.

BABs are taxable municipal securities that were sold in 2009 and 2010. The federal government originally said it would cover 35% of the interest costs on the securities but has since lowered that subsidy through sequestration. Some issuers claim that a subsidy cut is an extraordinary event, which allows them to use an optional redemption provision to refinance the debt at a lower cost.

State and local governments have been refinancing their BABs this year by using that provision. The MTA also believes it can use that option rather than refund through a make-whole call, which is more expensive for an issuer.

"Based on MTA staff review and outside legal advice, a material adverse change to certain sections of the Internal Revenue Code, which resulted in the decrease in the cash-subsidy payments to MTA and TBTA caused by sequestration, constitutes an 'extraordinary event'," according to MTA board documents, referring to the Triborough Bridge and Tunnel Authority, which the MTA oversees.

The Regents of the University of California in March closed a $1 billion refunding deal that refinanced BABs for tax-exempt munis even after investors questioned the legality of the transaction. Some bondholders risk taking a loss in such refundings as the cash payment may be lower than what they originally paid to buy the bonds.

The Municipal Securities Rulemaking Board last month warned investors of the risks in buying BABs that are trading at more than 100 cents on the dollar as some issuers are buying back the securities before they mature.

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