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From Harvard to Wisconsin, Muni Issuers Jump on Buyback Wave.

- **Refinancing tactic thrives after high rates, tax law shift**
- **Chicago, Wisconsin are users of common corporate strategy**

When Harvard University offered to buy back more than $400 million of its debt in a tender offer in March, it signaled again just how much the strategy is gaining acceptance among municipal-bon--market borrowers looking for ways to reduce debt costs.

The school on March 22 invited holders of certain 2016 debt to redeem them as part of a bigger sale via the Massachusetts Development Finance Agency, some of which was used to pay for the buyback. Almost $335 million in debt was retired at above-market prices, according to a securities filing.

“Unique market conditions this spring created a window of opportunity to refinance Harvard’s existing debt through a tender offer,” Jason Newton, the school’s director of media relations, said in an email. “These cost savings directly benefit the University’s teaching and research mission.”

States, cities and other issuers offered to repurchase about $30 billion in muni bonds last year, and are on track for a similar amount in 2024, according to an assessment from Barclays PLC. While the bank estimates that less than half that was successfully repurchased, market participants expect such buybacks to rise amid higher interest rates and changes to tax law that eliminated other refinancing moves.

“Tenders are another tool in a debt manager’s toolbox,” said Aaron Heintz, capital finance director for the state of Wisconsin, which has offered tenders every year since 2022. “We have been able to generate significant debt service savings.”

In a tender, an issuer offers to purchase bonds at a specific price on a certain date. The price is usually above the current market value but still low enough that the issuer can realize savings in retiring the debt.

Companies often employ tenders to buy back high-cost debt or as a defense against a takeover by repurchasing shares. Their occasional use in the $4 trillion muni market increased when the 2017 Tax Cuts and Jobs Act pulled the tax breaks from bond sales used in another type of refinancing, known as an advanced refunding.

But the municipal tender offers really took off when the Federal Reserve started raising rates two years ago, erasing any advantage of using advanced refundings even for taxable bonds.

In 2023, state and local issuers marketed roughly three dozen tender offers, according to Globic Advisors, the agent for many of the deals. That was more than double the number from a year earlier, based on deals represented by Globic.

Muni investors this year already have received at least two dozen such buyback offers, Globic President Robert Stevens said. The Texas Transportation Commission was among those who extended them, while the city of Chicago had a tender in 2023.

Wisconsin Savings

Holders of Wisconsin bonds in the last three years tendered from 13% to a high of 84% of the debt in an individual offer. Among the debt the state sought to buy back was several taxable advance refunding bonds issued from 2020 through 2022, Heintz said.

“Who would have thought that you’d be able to generate savings on taxable bonds that have coupons less than 3%,” he said.

Investors and underwriters say they anticipate more muni tender offers, barring an unanticipated sharp decline in interest rates.

“Everyone is asking about tenders,” said Samantha Costanzo, senior managing director and head of public finance at Huntington National Bank.

“The volume increases for tax exempt tenders are largely being driven by an issuer’s desire for cost savings, combined with the markets becoming more comfortable with the process over the last few years,” said James D’Arcy, senior portfolio manager at Vanguard Group. “The decision to tender is primarily based upon how much of a premium relative to current market prices the issuer is willing to pay the investor, as well as the reinvestment opportunities in the market.”

Thornburg Investment Management, which holds about $6 billion in muni assets, has received about 20 tender offers since the beginning of 2023, said Eve Lando, a portfolio manager and managing director. Thornburg has sold back bonds at higher prices than those available in the secondary market, she said.

Credit concerns or the need to get out of an “illiquid name” could also drive future decisions, Lando said.

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