

Bond Case Briefs

Municipal Finance Law Since 1971

DC's DOGE Problem Portends Higher Borrowing Costs on \$1.5 Billion of Debt.

The municipal-bond market is starting to price in the DOGE effect on Washington, DC's debt, and that likely means higher costs for the nation's capital on some \$1.5 billion of bonds it's selling.

It's a routine offering for the District of Columbia, but the timing coincides with an unprecedented campaign by President Donald Trump and billionaire Elon Musk to slash federal government spending. Efforts by the new Department of Government Efficiency have put the district and its economy in the center of the storm, denting its financial outlook amid workforce cuts and prompting a downgrade of its debt from Aaa by Moody's Ratings.

The district is still considered a very strong credit, with per-capita income that's higher than all 50 US states and "exemplary" fiscal management, according to Moody's. Market watchers expect ample demand for the new issue. But recent activity in outstanding DC debt suggests investors will demand a higher yield premium to take on the risk of owning the new bonds.

"It's a whole new world" than the last time the district sold similar debt in 2023, said Eve Lando, portfolio manager at Thornburg Investment Management. "I fully expect the borrowing costs to be higher."

Included in the district's offering are about \$1.2 billion of tax-exempt debt backed by income-tax receipts. Using existing debt as a benchmark, DC income tax bonds due in 2043 yielded 0.56 percentage point more than top-rated muni debt in April. That's up from a spread of 0.31 percentage point in December and much wider than the 0.11 percentage point premium the district paid when the debt was sold in 2023, according to data compiled by Bloomberg.

The new debt due in 25 years is being offered to investors with a 5.25% coupon and a 4.58% yield, or about 28 basis points more than top-rated debt, according to pricing wires viewed by Bloomberg. A security sold in 2023 with a similar maturity and coupon priced with a 19 basis point penalty.

The deal also comes at a time of heavy supply in the muni market, which may put some pricing pressure on all new issues this week. This is happening as the muni market claws back from a tariff-fueled selloff in April.

The district is going ahead with its sale even as it estimates it will lose as many as 40,000 federal jobs, or 21% of DC's federal workforce over the next four years as DOGE closes agencies, abandons leases and tears up billions of dollars in government contracts. Proceeds from the offering will go toward funding projects under its capital improvement plan, including upkeep on roads, schools and other parks, and to refund some outstanding bonds, according to bond documents.

"There's a lot of uncertainty, no doubt," said Glen Lee, chief financial officer of the district, in an interview. "But we have a very robust and dynamic capital program and in order to sustain it, we need to go to the market a couple of times a year."

In cutting the district's debt rating and assigning a negative outlook on the credit, Moody's cited the impact of the federal workforce cuts coupled with a weakening commercial real estate market and the increased likelihood of further federal spending reductions. All of this will "erode the stability that the institutional presence of the federal government has historically had on the District's economy," according to a Moody's statement.

However, both investors and district officials expect DC's still-strong credit profile will help ensure a successful sale.

"Given the strength of this credit, given the debt service coverage of the pledge and assuming an orderly market, I would expect that the sale would go as well as other district sales have gone in the past," said Darryl Street, associate treasurer for debt and grants management in the office of finance and treasury.

As issuers return to the market following a period of volatility, investor demand has surged. "The interest is there and the appetite is there," Thornburg's Lando said.

Deals on the new issue calendar have been performing well and some have even oversubscribed after the April selloff, according to Lando. She is confident in investor's appetite for the sale given their familiarity with the district's income-tax structure, credit quality and robust legal protections securing revenue streams for bondholders.

"It is a credit that is starting at a pretty high level from a rating standpoint," said James Iselin, managing director at Neuberger Berman Group. "I think the market will need to see the longer-term impact on the credit to determine if more spread is warranted down the road."

Bloomoberg Markets

By Aashna Shah

April 30, 2025

— *With assistance from Amanda Albright*