

New Jersey Penalized in Biggest Muni Bond Sale Since 2013

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by Romy Varghese

(Bloomberg) -- The New Jersey Economic Development Authority sold \$2.2 billion of bonds at yields that were more than 2 percentage points higher than benchmark tax-exempt securities in the state's biggest debt sale since 2013.

The bond offering shows the penalty New Jersey is paying to borrow as it faces financial pressure from an \$83 billion deficit in its employee-retirement system, which state leaders have shortchanged for years. The escalating bills to the pension funds have left New Jersey with the second-lowest credit rating among states after Illinois.

"Unless the state can show that it can make long-standing strides in its pension and health-care obligations, the state should be prepared to be penalized when it brings new issues to market," said Neil Klein, senior managing director in New York at Carret Asset Management, which oversees \$750 million of municipal debt. Carret didn't buy any of the bonds.

Yields ranged from 3.24 percent for a bond maturing in 2019 to 5.1 percent for a 2040 security, according to data compiled by Bloomberg. Bank of America Merrill Lynch was the lead underwriter of the sale.

The 10-year securities were priced at 4.37 percent, compared with 2.21 percent yield on comparable top-rated debt. The \$401.9 million in taxable bonds carried yields from 3.38 percent for 2017 securities to 4.45 percent for five-year bonds, the data show.

New Jersey ended up paying more in 10 years than A rated Guam, which sold comparable maturity debt Tuesday at a yield of 3.14 percent. Cobb County, Georgia's top-rated taxable bonds, also priced Tuesday, yielded 3.25 percent in 10 years.

Proceeds for the New Jersey issue will fund school construction costs, refinance debt and terminate derivative contracts. The bonds are rated A3 by Moody's Investors Service, the company's seventh-highest investment grade.

The deal accomplished the state's goals, and its true interest cost is 4.58 percent, said Christopher Santarelli, a spokesman for the Treasury Department.

"The offering saw widespread market acceptance with \$450 million retail orders from mom and pops to some of the largest institutional municipal investors in the country," Santarelli said by e-mail.