Bloomberg

New York State Municipal-Funding Agency to Offer $191 Million: Muni Credit

By Michelle Kaske

Aug. 30 (Bloomberg) -- New York Local Government Assistance Corp., which helps the state fund payments owed to municipalities and school districts, will sell $191 million of tax-exempt bonds tomorrow to refinance variable-rate debt.

The top-rated corporation could benefit from this week's relatively sparse tax-exempt sales calendar, particularly of New York issues, said Neil Klein, who manages $925 million in fixed- income assets at Carret Asset Management LLP in New York.
Scheduled sales are the fewest for a week before Labor Day since Bloomberg began compiling its index of weekly issuance in 2003.

"There is enough pent-up demand for good-quality municipal bonds that the deal will be received well," Klein said. "It's a large offering, so it may test the market's demand."

The sale is the biggest in a week set for $1.5 billion of municipal issuance, according to data compiled by Bloomberg. The offering was postponed from today and will price tomorrow through competitive bids, Eric Sumberg, a spokesman for New York state Comptroller Thomas DiNapoli, said in a telephone interview.

Proceeds will refinance all or part of Series 2008B-BV2 subordinate variable-rate bonds into fixed-rate debt and end a swap agreement attached to the securities, according to the preliminary official statement. The swap counterparties are UBS AG and Societe Generale, according to the corporation's 2011 annual report. Dexia SA provides a standby purchase agreement on the 2008 bonds.

Underperforming Issue

The transaction will "eliminate an underperforming liquidity facility," Sumberg said in an e-mail. "The ability to lock in extremely low fixed rates made the current structure attractive."

Yields on top-rated 10-year tax-exempt debt hovered at 2.2 percent yesterday, near a one-year low. Yields on top-rated 30- year tax-exempt bonds yesterday were 3.85 percent, near the lowest since November.

The cost of the swap termination and debt-service savings from the refinancing will be determined at pricing, Sumberg said.

The debt is backed by 1 percentage point of the state's 4 percent sales tax, subject to appropriation. The corporation is set to receive $2.8 billion of sales-tax revenue in fiscal 2012, which ends March 31, according to offering documents.

The subordinate bonds, along with the corporation’s outstanding senior debt, are rated AAA by Standard & Poor’s, its highest rating.

Appropriation Incentive

Fitch Ratings grades the subordinate debt and the senior bonds AA with a positive outlook, the same rating as New York state because of “the strength of the state’s incentive to appropriate for the LGAC bonds,” according to a Fitch report.

The rating companies don’t grade the senior bonds higher than the subordinate debt because of the “very high” debt- service coverage levels for both liens, according to a Standard & Poor’s report.

A senior-lien corporation bond rated AA that was sold in
2008 with an April 2021 maturity traded Aug. 26 with an average yield of 2.3 percent, or 37 basis points below an index of 10- year AA+ rated tax-exempt general-obligation bonds. On March 11, the bonds traded with an average yield of 4.02 percent, the highest this year and 37 basis points above the index that day.

Following is a description of a pending sale of municipal debt:

COUNTY OF NEW HANOVER, NORTH CAROLINA, the second-smallest by area in the state, will sell $93.7 million of hospital revenue bonds as soon as tomorrow to refund New Hanover Regional Medical Center Series 1999 bonds. The refunding is rated A1, Moody’s Investors Service’s fifth-highest grade. RBC Capital Markets is senior manager of the deal.

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