

THE BOND BUYER

How municipal bonds withstood California's inferno — so far

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The California fires haven't sparked a sell-off in the secondary markets in a sampling of muni bonds in devastated areas.

"Muni investors are either unconcerned or do not fully understand the extent of the fire damage and its impact upon these bonds," said Daniel Berger, a senior market analyst with TM3/MMD and Refinitiv, the financial and risk business of Thomson Reuters.

Berger took a look at trading for the Paradise Redevelopment Agency, Santa Monica-Malibu Unified School District and Butte Glenn Community College District.

In the three major fires burning in the state, Paradise has been most affected as roughly 90% of the town has burned, according to fire officials.

The \$1.47 million in Paradise RDA debt issued in 2016 has been thinly traded, Berger said.

After the fire, S&P Global Ratings placed the Paradise Unified School District on CreditWatch with negative implications. The school district's only direct debt was certificates of participation that have since been defeased, according to information on the Municipal Securities Rulemaking Board's EMMA website.

On Nov. 6, voters in the Paradise school district passed a \$61 million general obligation bond measure. The devastation throughout the community and its tax base will complicate any plans to use the authorization.

The California Teachers Association said the Camp Fire destroyed at least five of the nine schools in Paradise and that many educators lost their homes. Paradise USD had an estimated 3,165 students in fiscal 2017.

Santa Monica-Malibu-Unified School District issued \$120 million in general obligation bonds in September, but there does not appear to be an elevated level of concern there based on trading, Berger said.

“We used the MMD Trade Tracker and did not see any blocks of more than \$1 million trade since November 1,” Berger said.

Malibu’s four schools were evacuated as the Woosley Fire that started Nov. 8 in Ventura County spread south to Malibu. The California Department of Forestry and Fire Protection reported that three lives were lost and 1,500 buildings were destroyed by the fire that burned 97,000 acres. That fire was 97% contained as of Tuesday morning.

Malibu's three elementary schools are in “good condition,” with some landscaping damage to Malibu High School, according to news reports.

Malibu had 5,589 households with a medium value of \$1.8 million, according to U.S. Census as of July 1, 2017. Santa Monica has 46,463 households and homes with a medium value of \$1.08 million.

The joint school district agreed to a plan to split into two in March with a 50-year revenue sharing plan. More than 80% of the students in the joint district resided in Santa Monica. Malibu has 1700 students enrolled in its four schools.

None of the Butte-Glenn Community College District campuses are in the fire zone, but the loss of homes in Butte County, which has a population close to 230,000, could affect assessed value — particularly if homeowners don’t decide to rebuild. The county had 85,000 households as of the July 1, 2017, census.

The community college district is located south of the Camp Fire, the state's most destructive historically and a fire that has resulted in 79 deaths, destroyed roughly 17,000 homes and businesses and consumed 151,373 acres. That fire was 70% contained as of Tuesday morning, according to CalFire.

Berger also used the MMD Trade Tracker to look at three series of bonds issued by the Butte-Glenn Community College District and said he found that the bonds were trading better than MMD’s Triple A scale.

News of the fires has prompted investors to question issuers on California deals that have priced since fire began to ravage areas of the state, particularly since most syndicates and sales desk are New York-based, but pricing has appeared to be more relative to the individual credits, according to one banker. The California deals that priced last week were in areas that have not been affected by fire.