THE BOND BUYER

Southeast bond volume down despite surge in refundings, taxable debt

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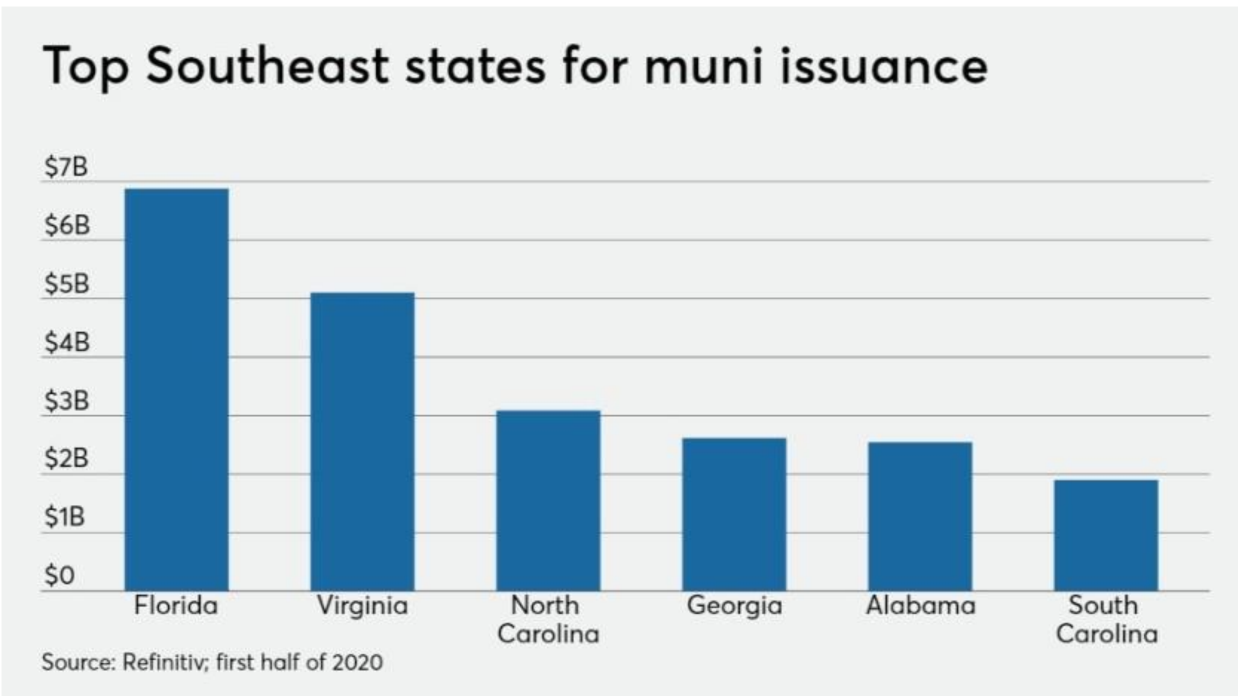
Southeast municipal bond issuers sold $27.8 billion of debt in the first half of 2020, a decline of 7% from the same period a year earlier, despite a surge in the use of taxable debt and refundings.



The region saw a 255% spike in taxable sales, for a total of $6.43 billion, and a 76.2% increase in refunding deals to $9.26 billion, according to data from Refinitiv.

The decrease in volume compared to the first half of 2019 made the Southeast the only area among The Bond Buyer's five regions to experience a drop in sales volume.

Fewer major transportation and prepay national gas deals influenced the Southeast's decreased volume.

Market volatility earlier in the year as the COVID-19 pandemic crisis widened also affected issuance, David Moore, managing director for the Southern region at PFM, told The Bond Buyer.

There were three to four weeks in March when some issuers "stayed on the sidelines" and didn't sell bonds because the market became unstable, he said.

Issuers sold $21.13 billion of tax exempt bonds, a decline of 14.7%. The use of new-money bonds dropped 28.8% to $14.65 billion. Combined new money and refundings totaled $3.87 billion, down 4.3%.

The first quarter saw issuance increase 19.8% compared to the same period last year, while second-quarter sales dropped 21.5% when some states were locked down to slow the spread of COVID-19.

Financings for transportation projects this year plummeted 89% to a mere $787.4 million compared to $7.17 billion a year ago. Last year's borrowings included $2.84 billion of tax-exempt private activity bonds for Florida's privately owned high-speed passenger rail system, which recently changed its name back to Brightline after shedding a branding agreement with Virgin Trains USA.

Fewer major prepay natural gas deals also helped suppress volume. There were three borrowings totaling $1.48 billion this year compared to $3.04 billion in five deals last year.

The lack of major transportation deals factored into the lag in borrowings this year even though more deals came to market, Moore pointed out.

In the first half, 675 deals were sold compared to 610 deals last year.

PFM remained the Southeast's dominant financial advisor firm, credited by Refinitiv with $4.19 billion of deals. Kaufman Hall came in second with $1.96 billion. Ponder & Co. was third with $1.94 billion.

"We expect to see more deals flowing through the third and fourth quarters with rates as low as they are right now," Moore said. "We're doing a lot of financings, both taxable and tax-exempt."

Moore also said issuers are now figuring out the cost of responding to the COVID-19 crisis and how it will impact revenues such as property assessments and sales taxes as they prepare budgets in the months ahead.

"What I hear in board meetings is that our clients are thinking through a wide range of scenarios, and one would be a slow recovery while another would be having another wave [of infections]," Moore said. "Most of our clients are being very proactive in realizing they need to move forward with ample reserves."

BofA Securities was the top book-running senior manager in the first half credited with deals totaling $5.38 billion. JPMorgan came in second with $3.45 billion. Wells Fargo placed third with $2.61 billion.

In bond counsel tables, Hawkins Delafield & Wood LLP came in first credited with $1.66 billion. Parker Poe Adams & Bernstein LLP was second with $1.57 billion. McGuireWoods LLP was third with $1.44 billion.

Education projects remained the top reason for borrowing with $6.7 billion of bonds issued, a 12.3% increase. Bonds issued for general purposes saw a 1.8% increase to $6.28 billion, while the healthcare sector experienced a 72.2% hike to $4.72 billion.

Florida issuers sold the largest amount of debt in the 11-state region with $6.88 billion, a drop of 26.4%. The Escambia County Health Facilities Authority in Pensacola was the Sunshine State's largest issuer by selling its largest deal, $610.3 million for Baptist Health Care.

Miami-Dade County was second-largest issuer, selling $540 million of bonds for various projects. The city of Tampa served as the conduit issuer on four deals totaling $519 million for the H. Lee Moffitt Cancer Center and the University of Tampa.

Virginia issuers sold $5.1 billion of debt, a spike of 61% compared to last year. The Virginia Housing Development Authority sold the region's largest combined amount of debt, $1.05 billion in six rental housing and mortgage bond deals. All but $75.9 million was taxable. The Virginia Public Building Authority issued $509.3 million on April 9.

North Carolina issuers came in third with $3.09 billion in sales, a 17.1% drop from last year. The Board of Governors of the University of North Carolina was the largest issuer in the state, credited with selling $404 million of bonds for various campus improvements. The city of Winston-Salem was number two at $356.5 million.

"We expect to see more deals flowing through the third and fourth quarters with rates as low as they are right now," said PFM's David Moore.

Georgia, usually the Southeast's second-largest source of issuance, fell to the fourth place with $2.6 billion in sales, down 29.1%. The Georgia Private Colleges & Universities Authority sold the region's fifth-largest deal with $486.5 million in May. That single deal made it Georgia's largest issuer.

This year's first-half volume was lower partly because the state of Georgia delayed its annual general obligation bonds sale until August due to the pandemic crisis; the state issued $950.6 million of GOs on June 19, 2019.

Alabama remained in fifth place selling $2.54 billion of bonds, a small uptick of 0.7%. The Lower Alabama Gas District issued $634.2 million on Jan 28. It was the region's largest single deal.

South Carolina issuers borrowed $1.9 billion, an increase of 27.6% over last year. The South Carolina Jobs- Economic Development Authority issued $409.9 million of bonds in six deals for various projects.

Kentucky issuers went to market to sell $1.79 billion, up 42%. The Public Energy Authority of Kentucky sold $552 million of gas bonds in the region's third-largest single deal.

Tennessee issuers brought $1.83 billion of bonds to market, a dip of 19%. Louisiana saw a decline of 25% in issuance with sales of $829.8 million. Mississippi issuers brought $557.2 million, a drop of 49.6%.

West Virginia issuers sold $633 million of bonds, an increase of 226.3%. The West Virginia University Board of Governors sold $377.8 million in refunding bonds in February, making it the state's largest deal, according to Refinitiv.

Southeast issuers preferred negotiated deals bringing $18.88 billion to market, up 1.8%. The volume of competitive deals declined 29.3% to $6.55 billion. Private placements came in at $2.35 billion, up 13.5%.

Revenue bond deals totaled $20.8 billion, down 9%. General obligation bond deals totaled $6.97 billion, down 0.6%.

Debt wrapped with bond insurance rose 113.8% to $2.09 billion. Debt with guaranties was also up 52% to $1.12 billion. Bank-qualified bonds rose 14.8% to $431.8 million.

State agencies issued $6.8 billion of bonds, down 26.9%, while local authorities came next with $6.75 billion in deals, down 0.8%.

Cities and towns sold $4.6 billion, an increase of 47.4%, while districts issued $4.09 billion, a spike of 51.3%. Counties and parishes issued $3.6 billion, down 7.1%. Issuance by state governments plummeted 81.6% to $518.5 million.

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