

Open Auction Bidding on Bonds Coming to NYS

The sale of municipal bond debt through the use of an online auction is an idea whose time may have come in New York State following the recent passage of new legislation by the State legislature. The sale of competitively sold bonds once involved the taking of bids face-to-face from interested banks and broker dealers. Subsequently, telephone and fax bids were accepted and, more recently, bid-taking via online submissions became the norm. It appears that the next incarnation of online bidding will be an open market auction.

In an open market auction, a bidder will submit its bid for an issue online and be able to see the rank of its bid as compared to the other bids submitted up to that time. If a bidder wants to improve its bid, it can submit a new, lower bid, which will also be ranked, and the process will continue beyond the published cut off time for bids until two minutes has passed without a lower bid being submitted. The hope of this new Open Auction Bidding format is that it will result in greater competition among bidders resulting in lower interest rates and additional market support for issuers. This new bidding technique is not without its detractors, some of whom talk about “the Winner’s Curse”. This so called curse threatens to lead to restrained bidding, affecting the seller’s revenue and making it safe for bidders to initially bid less aggressively. This new form of open market bond auction has been used in other states but is new to New York State via a recently authorized Pilot Program. Once approved by the Governor, the Pilot Program will be initiated on January 1, 2020. Issuers will need to qualify to participate. A county participant must have a population over 400,000, while cities and towns must have populations of 100,000 or more and have issued at least \$25 million in bonds within the past 3 years. After meeting all requirements imposed by the legislation, the municipality must then get approval from the NYS Comptroller to proceed in the Pilot Program. Based on the results of this Pilot Program, open market bond auctions could be the future of competitively sold municipal bonds. CMA will be paying close attention to the new program as we currently serve 3 counties whose population is over 400,000 (Suffolk, Westchester and Monroe) and 9 cities/towns whose population is over 100,000 (Amherst, Babylon, Buffalo, Islip, North Hempstead, Rochester, Yonkers, Ramapo and Syracuse).

First Fed Rate Cut Since 2008

On July 31st, 2019, the Federal Reserve cut interest rates by 25 basis points and announced that balance sheet runoff, or “quantitative tightening”, will end on August 1st, two months ahead of schedule. This much anticipated rate reduction marks the first time since the Great Recession of 2008 that the central bank has reduced interest rates. In announcing the cut, Federal Reserve Chairman Jerome Powell expressed concerns of a possible slowdown in the U.S. economy.

MMD GENERAL OBLIGATION INTEREST RATES

Term	Today - August 1, 2019					1 Month Ago - July 1, 2019					1 Year Ago - August 1, 2018				
	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	1.03%	1.04%	1.11%	1.13%	1.41%	1.24%	1.25%	1.39%	1.36%	1.66%	1.48%	1.49%	1.57%	1.67%	1.94%
5	1.07	1.13	1.29	1.34	1.64	1.31	1.37	1.59	1.60	1.92	1.99	2.06	2.25	2.37	2.69
10	1.48	1.60	1.75	1.79	2.11	1.64	1.76	1.99	1.97	2.31	2.48	2.65	2.82	2.95	3.30
15	1.77	1.95	2.05	2.12	2.40	1.92	2.10	2.28	2.29	2.59	2.76	2.96	3.12	3.25	3.61
20	1.98	2.16	2.26	2.33	2.61	2.12	2.30	2.46	2.49	2.79	2.94	3.15	3.28	3.43	3.77

RECENT CMA CLIENT SALE RESULTS

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Rochester City	RAN	\$ 50,000,000	25-Jul	10 mos.	1.19%	JP Morgan Securities LLC
Port Washington UFSD	BAN	\$ 45,895,000	25-Jul	12 mos.	1.29%	JP Morgan Securities LLC
Ardsley Village	Bond	\$ 17,060,000	17-Jul	22 yrs.	2.32%	Roosevelt & Cross, Inc.
East Aurora UFSD	Bond	\$ 21,850,000	17-Jul	14 yrs.	1.95%	Citigroup Global Markets Inc.
West Islip UFSD	TAN	\$ 19,000,000	16-Jul	11 mos.	1.35%	TD Securities (USA) LLC
Clarkstown CSD	BAN	\$ 31,983,506	11-Jul	12 mos.	1.37%	TD Securities (USA) LLC
Hempstead UFSD	TAN	\$ 43,000,000	11-Jul	11 mos.	1.72%	Oppenheimer & Co.
Sachem CSD	Ref. Bond	\$ 14,255,000	9-Jul	4 yrs.	1.09%	BNY Mellon Capital Markets