

ACCORDING TO

The Next Thing

■ Why are there so many 5 percent coupons in the municipal market? The conventional wisdom is that institutional investors prefer premium bonds with defensive coupons. **Andrew Kalotay**, chief executive officer of Andrew Kalotay Associates, a debt management firm in New York, sees no good, and writes about it in a piece published in today's Bond Buyer and carried on the newspaper's web site this weekend. Kalotay says an issuer could sell 5 percent coupon bonds and then immediately advance refund them to their first call date with 4s, and so produce some savings. "Nobody gets fired in municipal finance for 'saving money,'" he writes. "Never mind that now there are two tax-exempt issues outstanding, instead of one, supporting the same project -- not exactly what Uncle Sam intended when granting tax-exempt funding." And of course the transaction fees attached to the new issue "spread joy" among the underwriters and other parties to the transaction. Asked about issuers "immediately" refunding bonds, Kalotay responded by e-mail: "What I describe is an extreme case that probably has never happened. On the other hand, there have been numerous cases where the refunding has taken place within a couple of years, and sometimes within a few months, of issuance." Financial adviser **Robert Doty**, who discussed the 5 percent phenomenon with Kalotay, says the IRS may suspect such issuance to be an "artifice and device," which, he said in an e-mail, "covers transactions that may technically satisfy all tax rules, but nevertheless lead to excessive tax-exempt securities issuance." Doty continued, "While traditional refundings produce issuer savings based upon significant declines in market yields, here refunding can occur based upon only nominal declines, no declines at all, and even increased yields."

--Joe Mysak

DIARY

LaHood Expects Deals on FAA, Transportation Funding

U.S. Transportation Secretary **Ray LaHood** said he expects Congress to give final approval to a long-term authorization of the Federal Aviation Administration, which has been on a temporary footing since 2007.

LaHood said he also is optimistic for agreement on a transportation funding bill to be approved in the coming weeks.

He said Senate Majority Leader **Harry Reid** and House Speaker **John Boehner** have reached an agreement on an FAA bill and he believes Congress will pass it in a couple of weeks.

"The FAA is done, that's a done deal, they're going to vote on it," LaHood said while attending the opening of a car exhibit in Dearborn, Michigan. "There is an agreement, it will be a multi-year bill and we're very happy about it."

A bill to extend FAA programs through Feb. 17 -- the 23rd extension since 2007 -- was approved Jan. 26 by the Senate on a voice vote. The House passed an identical extension earlier last week.

LaHood said the Senate soon will take up a transportation funding bill which has been stymied by disagreements between the House and Senate. He said Senators **Barbara Boxer**, a California Democrat, and **James Inhofe**, an Oklahoma Republican, have put together a two-year bill that the Senate will soon debate. He said a transportation bill will be introduced in the House next week.

"The president talked about a six-year transportation bill, paid for, in the State of the Union," LaHood said. "There are a lot of moving parts here, things are moving."

--Chris Christoff

Nation's Employment Probably Grew in January

Employers probably added workers to payrolls in January, showing companies are gaining confidence the U.S. expansion will weather Europe's slump, economists said before reports this week.

Employment grew by 150,000 after rising by 200,000 in December, according to the median forecast of 68 economists surveyed by Bloomberg News. The jobless rate may have held at an almost three-year low of 8.5 percent. Other reports may show manufacturing accelerated this month and consumer confidence picked up.

"The labor market is on firmer footing and manufacturing entered the year more upbeat," said **Ellen Zentner**, a senior economist at Nomura International Securities LLC in New York. "Improvement in the labor market will go far in supporting the economic recovery in 2012."

More hiring and larger wage gains are needed to ensure that consumer spending, which accounts for about 70 percent of the economy, strengthens after growing at the weakest pace of any post-World War II expansion. Concern that the jobless rate remains too high is among reasons the Federal Reserve last week said it will keep interest rates low for a longer period.

The Labor Department's jobs report is due Feb. 3. Payroll estimates in the Bloomberg survey ranged from increases of 100,000 to 225,000. The jobless rate, which was 9.1 percent a year ago, is projected to hold at the lowest since early 2009.

The projected gain in January payrolls is smaller than the prior month's increase as economists, including Zentner, forecast about 40,000 temporary holiday workers hired by delivery companies like United Parcel Service Inc. and FedEx Corp. were dismissed this month.

Private payrolls are forecast to rise by 168,000 in January, after a 212,000 gain the prior month, the biggest back-to-back gain since March-April, according to the survey median. Manufacturing payrolls are forecast to rise by 11,000 after a 23,000 gain.

With this week's jobs report, the government will issue its annual benchmark update, which aligns the data with corporate tax records and covers the period from April 2010 to March 2011. The Labor Department estimated in September that payrolls for the 12 months would be increased by 192,000.

--Bob Willis