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**HEADLINE:** Treasury to Resume SLGS Sales  
Move Possible After Debt-Limit Increase

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**BODY:**

The Treasury announced Friday that it will resume selling State and Local Government Series securities on June 2 and allow issuers to resume placing orders for the specially tailored securities as early as today.

The announcement, issued by Treasury's Bureau of the Public Debt, came about two hours after the Senate gave final congressional approval to legislation that would increase the nation's debt limit by \$984 billion to nearly \$7.4 trillion and sent it to the White House for President Bush's signature over the holiday weekend.

The reopening of the so-called SLGS window will end a suspension of sales that has lasted more than three months. On Feb. 19, the Treasury froze SLGS sales and halted investments in federal employees' pension funds to prevent the government from exceeding the former \$6.4 trillion debt limit.

SLGS are primarily used in conjunction with advance refundings and are purchased by state and local governments at specially tailored interest rates to meet arbitrage restrictions imposed on the investment of bond proceeds.

During the nearly three months that the SLGS window has been closed, advance refundings have slowed compared with a year earlier. From Feb. 19 through May 23, 106 advance refundings worth \$2.044 billion were done. In the same period last year, 170 advance refundings totaling \$3.530 billion were done -- a 42% decline in dollar volume and a 38% decline in issues.

The approval of the debt limit bill is the second increase in the debt ceiling in the past year. However, when the Treasury stopped selling SLGS for two months in 2002, it allowed issuers to place subscriptions for the securities although it could not guarantee issuance. During that time, the Bureau of Public Debt was unable to fill \$583 million of orders for SLGS that issuers had requested between May 15 and July 3, said bureau spokesman Peter Hollenbach.

This year, the Treasury simply closed the window, so the potential number of SLGS that might have been ordered in the last three months is unknown.

"It made things cleaner," Hollenbach said. "The subscribers weren't subject to uncertainty about whether they would get SLGS."

Ronald Stack, who chairs The Bond Market Association's municipal executive committee and heads Lehman Brothers' public finance division, welcomed the debt limit increase, even

though he said issuers have been taking advantage of the low interest rates in the open market.

"We think that is an alternative that is good to have," Stack said.

However, some older escrows would have benefited from zero-interest SLGS in order to bring the yield down, he said. In other situations, issuers with negative arbitrage could have earned a higher interest with SLGS. "Right now, you can't buy an escrow in the open market that gives you that yield," he said.

Susan Gaffney, director of the Government Finance Officers Association's federal liaison center, called the end of the freeze on SLGS sales "imperative," saying the freeze created an administrative burden for states and localities.

"It is costing states and localities money in addition to all the other budget strains," Gaffney said. "This administrative problem is very unnecessary and needs to be remedied immediately."

Although interest rates are low on the open market, she said anything could happen.

Gaffney added that two freezes on SLGS within a year has caused some uncertainty for issuers.

"Should we just factor this in as happening every year? It is hard to predict what the marketplace is going to be like every year," Gaffney said. "It is going to end up costing issuers money."

The Senate approved the \$984 billion increase by a 53-44 vote, after a number of amendments pushed by Democrats failed to pass, including one offered by Sen. Max Baucus, D-Mont., that would have reduced the amount of the debt limit hike to \$350 billion -- the same amount as the tax cut package the Senate approved earlier on Friday.

The House approved the \$984 billion debt limit increase on April 11, including it in the fiscal 2004 budget package by using the so-called Gephardt rule. That rarely-used tool stipulates that any debt limit increase provision attached to a budget resolution is automatically deemed to have passed when the House approves a budget resolution, and it allows the House to approve an increase without actually voting on it.

The Senate does not have a comparable procedure and had to vote separately on the measure.

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