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Citigroup Snubbed on Muni Deal Over Gun Law, Costing Texas City $277,334.

- **Bank had best bids on muni sales by city of Anna, Texas**
- **City said the decision followed discussions with state AG**

A Texas city declined to award a bond deal this week to Citigroup Inc. even though the bank submitted the most competitive bid, showing how Wall Street is still contending with a Republican-backed state law that punishes financial firms for taking on gun policies.

The bank was rejected after submitting the best bid among firms that sought to underwrite two bond sales totaling almost $100 million this week by Anna, Texas. It's unusual for a municipality to reject a bank's winning bid on a municipal-bond deal.

Frances La Rue, a spokesperson for Anna, said in a statement that officials chose the second-lowest bid after discussions with the office of the state's Republican attorney general and the municipality's legal counsel and financial adviser. The attorney general's office, which oversees most bond sales in Texas, said Friday that it is still reviewing Citigroup's ability to comply with the state's gun law.

The firearms measure was one of a pair of laws that took effect in September 2021, limiting Texas governments' work with companies unless the firms verify that they don't "discriminate" against gun entities or boycott the fossil fuels industry.

Citigroup initially suspended muni underwriting in the state for a few months after September 2021 as it worked to verify compliance. It resumed underwriting Texas muni deals in November and closed a deal as recently as last week.

In 2018, Citigroup announced policies that set restrictions on the firearms industry after the mass shooting at a high school in Parkland, Florida. Citigroup said it would prohibit retailers that are customers of the bank from offering bump stocks — devices that let semiautomatic rifles fire even more rapidly — or selling guns to people who haven't passed a background check or are younger than 21. The bank's policy does include caveats, including an exemption to the under-21 age restriction if a person has military training, for example.

Additional Cost

Anna, a city of about 20,000 people roughly 50 miles (80 kilometers) northeast of Dallas, awarded the sale to Robert W. Baird & Co., which hasn't been affected by the new laws. It will cost the city an estimated $277,334 additionally over more than 25 years to work with Baird instead of Citigroup, according to the city spokesperson.

The city's decision signals that Texas municipalities are still hesitant to work with banks affected by Texas Republicans' fight against Corporate America for wading into social issues.

Early this year, the National Shooting Sports Foundation, a national trade association, told Texas

Attorney General Kenneth Paxton that Citigroup can't certify compliance with the Texas law. The bank has repeatedly said it doesn't see its policies as violating the law.

In an emailed statement Friday, Paxton said the office had received a complaint that Citigroup's policies would constitute discrimination against the firearm industry, violating the gun measure, known as SB 19.

"As a result, we engaged with representatives of Citi to discuss their policies," the statement said. "More recently, Citigroup and the City of Anna recently contacted my office and asked us if we were still reviewing Citi's eligibility to contract with Texas under SB 19. We confirmed that we were."

Mark Costiglio, a Citigroup spokesperson, said the bank has certified that it complies with both laws and continues to participate in numerous public-sector transactions in Texas.

"We do not believe the claims made by a third-party organization have any merit and we continue to support our clients in this important market," he said in a statement.

Citigroup offered a true interest cost of 4.215% on a roughly $60 million portion of the offering, while Baird offered 4.24%, according to the Anna spokesperson.

"The City Council is confident in Robert W. Baird's ability to ensure the sale of the bonds will close in October with the lowest possible costs and ascertain the City's important public projects move forward efficiently," the city's statement said.

A Baird representative didn't respond to a request for comment.

A paper published earlier this year found that Texas municipal borrowers have been hit with as much as $532 million of extra debt costs because of the two new laws, which have led some of the nation's biggest banks to pause muni underwriting there.

Citigroup has been underwriting deals in Texas for months, most recently pricing $223 million of sustainability bonds for the Harris County Flood Control District last week. The bank is slated to underwrite almost $1 billion of bonds for a state water board later this month.

The bank is the fifth-biggest underwriter of Texas municipal-bond deals in 2022, compared with 8th-biggest for all of 2021, according to data compiled by Bloomberg.

Bloomberg

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