

# **Bond Case Briefs**

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## **Wisconsin Lured by Debt Paydown Readies Asset Sales: Muni Credit.**

Wisconsin may sell heating plants and land to pay down debt. Thirty-two [North Carolina](#) cities are deciding whether to unload stakes in power stations. Philadelphia wants to cash in on its gas works to bolster its pension fund.

Almost five years after the longest recession since the 1930s, U.S. states and localities are wringing money from their assets as officials seek alternatives to tax increases and spending cuts for constituents weary of shouldering those burdens.

"Cities are looking at some tough choices, particularly regarding pensions, which was a big issue for Philadelphia," said Naomi Richman, a managing director in New York at Moody's Investors Service. "If you have an asset that you can find a way to monetize, that might be a more attractive option."

Even as an expanding economy fuels a fiscal turnaround for states and cities, officials have limited resources to meet the costs of pensions, health care and public works. They're also reluctant to borrow. The municipal-bond market has been contracting since 2010 as localities pare sales of debt to finance projects, according to the [Federal Reserve](#).

### **Deals Done**

Municipalities have already closed deals. Allentown, [Pennsylvania](#), leased its water and sewer services last year for an upfront payment covering pensions. The Pennsylvania capital of Harrisburg leased its parking system and sold its incinerator in December to satisfy creditors and return to solvency. Indianapolis leased its parking system in 2010.

With municipal-debt yields close to [five-decade lows](#), local governments will find demand for the assets, said John Loffredo, co-head of Princeton, New Jersey-based MacKay Municipal Managers.

"You have good revenue streams in a low interest-rate environment that makes these assets very attractive to private investors," said Loffredo, whose firm oversees \$7.5 billion of munis. "Politically you lose control, but professional management is a better process for a lot of cities and towns, especially if it helps bring in assets to offset other liabilities on the balance sheets."

### **Wisconsin's List**

In [Wisconsin](#), officials are compiling a list of state properties to sell, including heating plants, said Stephanie Marquis, a spokeswoman for the Department of Administration. Changing federal environmental regulations have increased the risk of operating aging facilities, she said.

"This is the time to explore the potential for selling these plants to an entity that can better mitigate these risks through economies of scale and scope, while still providing reliable, economic energy," Marquis said in an e-mail.

Officials may also entertain offers for land around a state complex in Madison, she said.

Proceeds would go toward retiring bonds, she said. Wisconsin has \$13.7 billion in debt as of June, a financial statement shows.

Debt of Wisconsin issuers has gained 3.1 percent this year, trailing the broader \$3.7 trillion municipal market's 3.4 percent advance, according to S&P Dow Jones Indices. The state outperformed the rest of the market in 2013.

In eastern North Carolina, the burden for some cities is electricity rates. Following the energy crisis of the 1970s, 32 cities and towns bought shares of [power plants](#) to ensure their supply, through a non-profit called North Carolina Eastern Municipal Power Agency. As a result, they assumed some of the debt of the plants, which totals \$1.87 billion.

### **Debt's Effect**

[Duke Energy Progress \(DUK\)](#) is negotiating to buy the stakes, said Jeff Brooks, a company spokesman. The utility is a unit of Charlotte-based Duke Energy Corp., which serves 7.2 million U.S. customers.

The process could take 12 to 24 months, said Rebecca Agner, a spokeswoman for the Raleigh-based authority. All the municipalities must agree to sell.

Selling power assets could reduce rates by settling the debt that drives them higher, said Tony Sears, the city manager of Kinston. Residents' bills are 26 percent more than neighbors across the municipal line.

"It's about finding financial relief for our customers," said Sears. "That's the driving force."

### **Philly Evidence**

Demand for such deals was evident in [UIL Holdings Corp. \(UIL\)](#)'s \$1.86 billion offer this month for Philadelphia's Gas Works, the nation's largest municipally owned gas utility. The sale must be approved by city council and state regulators.

After paying obligations, the city would have at least \$420 million to deposit into the pension fund. That would boost its funding level to 77 percent by 2030, from 48 percent now, said Kirk Dorn, a senior director at Ceisler Media, a public-relations firm hired by Philadelphia.

For UIL, based in [New Haven, Connecticut](#), the deal would add to [cash flow](#) and give it customers near the booming Marcellus and Utica gas-shale formations, Chief Executive Officer James Torgerson told analysts on March 3.

Few local governments have such assets to dispose of, said Paul Mansour, head of municipal research at Hartford, Connecticut-based Conning.

"The critical factor is that there's not that many facilities that you can lose or sell that make a big enough difference," said Mansour, whose company oversees about \$9 billion of munis.

### **Chicago Ripple**

Public officials have also balked at such deals after [Chicago](#) in 2008 agreed to a 75-year parking-meter lease for an upfront sum amounting to about a 10th of the potential profit.

The perception of that deal “has slowed a lot of people down” from similar moves, Stephanie Miner, mayor of Syracuse, [New York](#), said in an interview.

Harrisburg is one city that studied the Chicago transaction. William B. Lynch, Harrisburg’s former state-named receiver, said its parking lease gives a share of the profits.

Paul Dabbar, managing director of global mergers and acquisitions at JPMorgan Chase & Co., Philadelphia’s broker on the sale of its gas works, said publicly traded utilities are interested in municipal systems offering stable, regulated cash payments. The increase in infrastructure funds investing in such assets is also fueling demand, he said.

“It will continue as long as the current situation for the average municipal and state entity exists in terms of their fiscal situation, as well as if the cost of capital and availability of infrastructure capital continues to be robust,” New York-based Dabbar said of the interest in public systems.

“We don’t see that changing to the negative on either one of those drivers anytime soon.”

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