
Houston Stadium Debt Backfire Spurs Restructuring: Muni Credit.

The agency that financed stadiums for three of Houston's professional sports teams is selling debt to extricate itself from municipal-bond deals that backfired with the financial crisis.

The Harris County-Houston Sports Authority plans to borrow about $689 million starting this week to restructure some of its $1 billion of obligations. The debt, mostly backed by tourism-related taxes, was sold to pay for facilities in the fourth-most-populous U.S. city for Major League Baseball's Astros, the National Basketball Association's Rockets and the National Football League's Texans.

Localities are still dealing with financing structures sold by Wall Street banks more than a decade ago with the promise of cutting borrowing costs. For the Harris County agency, the recession triggered events that caused the deal to unravel: The debt's insurer was downgraded, leading the authority to repay $117 million of bonds 16 years earlier than scheduled while also ending swap contracts at a cost of $25 million.

"We've struggled, but this deal will put all of this behind us," J. Kent Friedman, a Houston attorney who is chairman of the authority, said in a phone interview. "We're aggressively trying to get this done by the end of the year."

Debt Trap

This week's offering shows how municipal borrowers trapped in misfiring deals don't have to follow Detroit, where bankruptcy left bondholders with a fraction of their original investment. Investors may also take a loss in Puerto Rico, where the island's electric agency is set to release a plan in March to restructure its $8.6 billion of debt.

The sports authority's approach resembles an October deal from the San Joaquin Hills Transportation Corridor Agency in California, in extending maturities to match expected revenue, said Alan Schankel, managing director of Janney Montgomery Scott LLC in Philadelphia. The revamp will spread the stadium agency's repayment over 12 extra years.

"There's things issuers can do, short of bankruptcy, that move the projects forward," said Schankel. "It's a credit-positive for investors, but its good for the issuer too."

Tourism Cash

The authority, created by the county and the city of 2.2 million people in 1997 to fund sports venues, sold bonds in 1998 for Minute Maid baseball park, and in 2001 for the NRG football stadium and the Toyota Center basketball arena. The agency also built BBVA Compass Stadium for the Dynamo Major League Soccer franchise without borrowing. That venue opened in 2012.

Backing for the bonds came from income such as a 2 percent tax on hotel and motel stays and a 5 percent car-rental levy. The debt also included variable-rate bonds with interest-rate swaps designed to control borrowing costs.

MBIA Insurance Corp., which guaranteed the variable-rate debt and swaps, was stripped of its last top rating in June 2008 after losses on mortgage-backed securities it insured. JPMorgan Chase & Co., the buyer of last resort for the variable-rate debt, repurchased those bonds, which in 2009 triggered a provision requiring the authority to pay off the securities in five years rather than the scheduled 21.

Wrong-Way Bet

The authority paid to end the swaps in 2011, and this year repaid the accelerated debt using reserves, according to Friedman. The agency had company in paying to exit swaps, which proved wrong-way bets for many localities after the Federal Reserve drove its benchmark interest rate close to zero. Municipal borrowers in the $3.7 trillion market have paid at least $5 billion to banks to end interest-rate swaps, data compiled by Bloomberg show.

The agency met its obligations without missing payments to investors, according to Friedman. Moody’s Investors Service had warned in 2010 that the agency might not make its payments.

By pushing the maturity out to 2053, the new structure will create flat payments that align with expected revenue. Previously, the payments escalated through 2041, which would have required the revenue backing the debt to increase.

“We’re making it more comfortable for the authority to make debt-service payments,” said Friedman. “We’re making it less complicated.”

Rodeo Bonds

On top of selling $569 million of new senior and junior-lien debt backed by the car and hotel taxes, the authority wants to issue about $120 million of bonds this month backed mainly by payments from the Texans NFL team and a livestock show and rodeo, said Friedman.

The new structure will also provide dedicated reserves and remove the risk that a failure in one part of the structure could trigger defaults of other parts, according to Moody’s. Surplus revenue would go toward reserves to repay debt early.

The changes may lead rating companies to raise the authority’s ratings. Moody’s assigned an A2, its sixth-highest grade, to the new senior-level bonds. That’s still seven levels higher than the Ba3 mark of the current senior debt, which Moody’s put on review for an upgrade once the restructuring is done. Standard & Poor’s gives an A- rating, its seventh-highest, to the new senior debt, and put some existing senior debt on positive credit watch, meaning ratings may rise.

As the authority sells, its finances are improving. Pledged revenue, including lodging and car-rental taxes, are up 36 percent from 2010 to 2013 after falling 12.7 percent from 2008 to 2010, according to S&P. The restructuring also saves $60 million and frees up revenue of $24.5 million in 2014, according to S&P.

“It all worked out and everyone got paid,” said John Medina, an analyst with Moody’s in New York.

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