Bond Case Briefs

Municipal Finance Law Since 1971

Louisiana State Bond Buyers Met by Insolvency Plan Next Day.

Investors who bought $114 million of debt sold by Louisiana State University on Wednesday were warned about the state's fiscal struggles. What they weren't explicitly told in bond offering documents was that the school was considering filing for exigency.

Officials at the Baton Rouge-based school said they plan to draw up a financial exigency plan, equivalent to college bankruptcy, in the wake of $608 million in budget cuts proposed by Governor Bobby Jindal. For those who analyzed offering documents, the first item listed under bondholders' risks now takes on added meaning.

"The ability of the university to make principal and interest payments on the series 2015 bonds is indirectly contingent upon sufficient annual state appropriations to continue the operations of the university," it reads.

Yet the word "exigency" doesn't appear in the 204-page document dated April 13. Exigency, declared when schools face insolvency, would allow Louisiana's flagship school to restructure and fire tenured faculty.

"It's bad form, if nothing else," said Bart Mosley, co-president of Trident Municipal Research in New York. "Obviously for LSU's financial structure, the state budgeting situation is a risk factor. The question this is going to come down to is how well were potential bond purchasers informed."

Buyer Aware

In an e-mail, Ernie Ballard, a Louisiana State spokesman, said: "We didn't list every possible action/contingency that might ultimately be considered because the situation was and remains fluid due to the ongoing legislative process, as it is in many other states. We are confident that we were transparent and open in the offering statement about the current state budget situation to potential investors."

The school "is exploring a wide range of contingency plans, one of which would be filing for exigency if solutions to the projected shortfall are not found," he said.

The bond document says "the university will examine all possible options to address potential reductions to state appropriations" in fiscal 2015-2016.

The deal shrank from an initially planned $130 million, according to offering documents. The largest portion of debt matures in July 2045 and priced to yield 3.57 percent, or about 0.5 percentage point above benchmark munis, data compiled by Bloomberg show.

Yields rose Thursday among the four bond trades of at least $1 million in size. The debt due in 2045 changed hands at a yield of 3.62 percent. The yield on bonds maturing in July 2033 rose to 3.36 percent, from 3.31 percent at pricing.

Moody’s Investors Service rates the university A1, the fifth-highest grade. It lowered its outlook to stable from positive April 8, citing “material declines” in state support. Fitch Ratings ranks it a step higher, at AA-.

Bloomberg News

by Brian Chappatta

April 23, 2015