Bond Case Briefs

Municipal Finance Law Since 1971

One of the Biggest Bond Market Players Has No Employees.

One of the most prolific issuers in the $3.7 trillion municipal market is a Wisconsin agency with no employees, coveted tax-exempt bond status and a nationwide client list.

The Public Finance Authority last year issued bonds for more than 30 charter schools, senior living facilities, universities and real estate developers in 15 states. None were from Wisconsin. The University of Kansas sold $327 million of tax-exempt bonds last week through the authority for the first time so it didn't have to wait on the legislature's approval to raise money for a new 285,000 square-foot science building, a student union and housing.

"We're expecting a larger class in 2017," said Theresa Gordzica, the university's chief business and financial planning officer. "We needed to keep the project moving so we can get the residence hall done."

The deal highlights an obscure corner of the state and local-government debt market where pass-through agencies rent out their ability to sell tax-exempt bonds to out-of-state companies and non-profits in exchange for a fee. The practice has drawn criticism from some public officials, who say it can allow debt issuers to skirt their oversight by financing projects through authorities beyond their jurisdiction.

"The university is owned by the state, both the facilities as well as the good faith and credit," said Representative Mark Hutton, a Wichita Republican, who called the university's decision a "dangerous" precedent. "The reality is that they answer to the taxpayers of the state of Kansas, and we're that voice."

Such agencies sell securities and immediately lend the proceeds to borrowers, whose projects qualify for the tax exemption the federal government awards to debt for public works. The authorities aren't on the hook if the money isn't repaid. That makes the bonds among the riskiest in the municipal market: They make up as much as 30 percent of outstanding debt but account for almost 60 percent of defaults, according to Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

State Competition

Wisconsin is one of seven states, including Florida and Arizona, that allow so-called conduit authorities to issue debt for projects beyond their borders, according to the Columbus, Ohio-based Council of Development Finance Agencies.

Wisconsin lawmakers approved legislation in early 2010 that allowed for the creation of the Madison-based PFA, which has since sold $3.4 billion of bonds. Started by the Wisconsin Counties Association, working with the National Association of Counties and the National League of Cities, its goal is to provide governments and eligible private entities with access to low-cost financing for projects that contribute to social and economic growth. Last year, the PFA was the most active conduit issuer, according to data compiled by Bloomberg.

Mike LaPierre, president of Walnut Creek, California-based GPM Municipal Advisors, which manages the day-to-day operations of the PFA, said all of its bond sales are first approved by local governing bodies such as city councils. The university's board of regents authorized last week's sale.

"We're going to the elected body most impacted by the projects," said LaPierre, whose firm was paid $1.5 million by the authority in 2014. "We're not doing anything unless that local agency has vetted it before a public hearing."

"As local public officials ourselves, we want to to ensure that those most impacted by the project have a chance to weigh in," said William Kacvinsky, the former Bayfield County supervisor who chairs the PFA.

Most of the authority's bond sales have been for out-of-state issuers. About $150 million of the money it has raised was for nine standalone Wisconsin projects and four multi-state deals for work based in the state, according to LaPierre.

Last year, 17 of its bond issues, or more than half, didn't have credit ratings, a step frequently used by borrowers that are unlikely to receive an investment grade, according to data compiled by Bloomberg. Only qualified institutional buyers or accredited investors can buy those securities, and those rated below BBB-, LaPierre said.

No Defaults

No PFA debt has had a payment default. But one charter school in Palm Beach County, Florida, that borrowed through the agency has had to draw on its reserves to pay bondholders, a sign of distress.

"The investors are big boys, they're doing their due diligence," LaPierre said. "We don't want unrated debt being held in the hands of mom and pop."

The PFA shares a mailing address with the Wisconsin Counties Association in a building across the street from the state capitol. Its seven-member board includes four directors nominated by the counties group, and one director each from the National League of Cities, the National Association of Counties and the League of Wisconsin Municipalities. The groups receive fees for endorsing the PFA. Last year, the National Association of Counties received about $130,000, said spokesman Brian Namey.

The University of Kansas, with 25,000 students at its main campus in Lawrence, sold debt to finance projects include a $138 million science building. It was the first time the university used an out-o--state conduit, said Rebecca Floyd, the general counsel of the Kansas Development Finance Authority, which handles bond deals for local borrowers.

"I think it was one of those circumstances that the legislature didn't foresee," she said.

Some charter schools in North Carolina have turned to the PFA rather than issue debt through North Carolina's Capital Facilities Finance Agency. Pamela Blizzard, the managing director of the Research Triangle High School near Durham, said the North Carolina authority's conditions were more restrictive and would have delayed the sale by months.

Other conduits have also been competing for business. In Connecticut, a retirement community last March used the PFA to issue $34.5 million of bonds rated BB, two steps into junk. After the deal, Connecticut's Health and Educational Facilities Authority dropped its policy of only issuing investment grade bonds. It will now allow for public offerings of bonds rated BB and BB+ and sold to qualified institutional buyers or accredited investors, said Executive Director Jeanette Weldon.

"We wanted to make sure we're giving these borrowers the access to capital that they need," Weldon said.

Bloomberg Business

by Martin Z Braun

January 12, 2016 — 9:01 PM PST Updated on January 13, 2016 — 6:28 AM PST