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Public Finance Authority Responds to Critics.

PHOENIX – Leaders of the Public Finance Authority take issue with criticisms that the Wisconsin-based national conduit issuer only exists to usurp local control from taxpayers and other bond-issuing authorities.

The PFA, created by the state legislature as a political subdivision of Wisconsin in 2010, has issued nearly \$4 billion of bonds for more than 150 projects in 40 states.

But the issuer, which was created with the support of the National Association of Counties, the National League of Cities, the Wisconsin Counties Association and the League of Wisconsin Municipalities, has taken fire from local politicians and finance authorities who don't like the PFA doing financings far from its own home base.

Mike LaPierre, the program manager at the PFA, said the criticisms are the result either of local politics or complaints from state agencies that have never been forced to compete with another conduit issuer. When the University of Kansas issued more than \$325 million of lease revenue bonds through the PFA earlier this year, for example, the result was controversy.

KU bypassed its usual issuer, the Kansas Development Finance Authority, because the bonds would have required legislative approval. Lawmakers questioned the wisdom of the project, which was to finance a classroom and housing.

The bonds received investment-grade ratings but negative outlooks from Moody's Investors Service and Standard & Poor's. Ray Merrick, a Republican and speaker of the Kansas House of Representatives, was especially critical, charging that issuing the bonds through the PFA was an attempt to escape state oversight and hide the financial risks of the project from Kansas taxpayers.

But the PFA's leaders insist that the agency exists merely to fill a void for issuers who might not otherwise have a way to get a financing done. They say the PFA takes no part in local politics.

The KU deal, said PFA program manager Phil Letendre, was essentially a case where some individuals did not want the university doing any new construction at all. That debate had nothing to do with the PFA, he said. KU insisted throughout the process that it had every legal authority to issue the bonds through the PFA.

Nor does the PFA have a problem with an issuer that ultimately chooses to issue bonds through a regular state agency, Letendre said.

"If the state can do it better, more efficiently, great," he said.

Illinois and Washington have each passed laws seemingly designed to hamper activity from issuers like the PFA, by giving relevant in-state authorities time to review the potential financing and choose to do it themselves if they see fit. The PFA has done deals in those states, but its officials acknowledge that the laws make it more difficult because issuers typically do not want to be in legal limbo for months while their project is reviewed.

The PFA also has been criticized for the fact that 44% of the debt it has issued is unrated and privately placed. Only about 35% of PFA's bonds have been rated triple-B minus or higher and publicly offered, with the balance directly purchased by banks. The PFA contends that it only sells unrated debt to qualified institutional buyers, and that its projects have historically performed well.

"We've not had a default," Letendre said.

Wisconsin benefits from the PFA as well, authority officials contend, even though its activities do not create many jobs. The PFA is managed by LaPierre's firm, GPM Municipal Advisors, which is based in Walnut Creek, Calif. But an economic impact study commissioned by the PFA estimated that the authority's financings have created some 8,462 permanent jobs and generated about \$61.4 million in tax revenues from all its deals across the states.

One of its earliest of the PFA's deals was for a rural electric cooperative in Wisconsin that created about 68 permanent jobs and almost half a million in tax benefits to the state, according to the report.

PFA bonds are only federally tax exempt, so states still collect taxes on the interest earned on those bonds.

The Bond Buyer

By Kyle Glazier

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