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Harrisburg Issue Marks Return of Agency Behind City Collapse.

Armed with an investment-grade credit rating, a Harrisburg agency returned to the bond market for the first time since its predecessor nearly bankrupted Pennsylvania's capital city.

Capital Region Water sold \$53 million of bonds to refinance as rates hold near five-decade lows. The agency was created in 2013 from the Harrisburg Authority, a now-defunct agency that funded the city's ill-fated incinerator project and prosecutors say was used by the former mayor to bankroll a criminal spending spree on Wild West memorabilia. The city's inability to pay its debts pushed the community into state receivership from 2011 until 2014.

Unlike in the past, Capital Region Water operates the water and sewer system independently of Harrisburg officials. It garnered a rating of A+, fifth-highest, from Standard & Poor's before the sale.

"It's not just a new logo and a new name," said Shannon Williams, the agency's chief executive officer. "It's a full comprehensive reboot to this entire organization and enterprise."

The bond sale, the largest from a Harrisburg issuer in eight years and the first since the agency's overhaul, is the latest test of whether investors can embrace turnarounds by municipalities that were roiled by the 2008 credit crisis and the recession that ended almost seven years ago.

Essential Services

Detroit, which emerged from a record bankruptcy in 2014, refinanced water and sewer debt for yields of about 1 percentage point more than top-rated securities in December. That same month, Jefferson County, Alabama, secured an investment-grade rating from Moody's Investors Service, two years after having its debts reduced in federal court.

Capital Region's longest maturity bond due in 2029 was priced to yield 2.57 percent, 0.61 percentage point over top-rated debt and 0.08 percentage point less than similarly-rated revenue bonds, data compiled by Bloomberg show.

The Harrisburg agency has "done a lot" to move away from past practices that landed it in trouble, said John Donaldson, who oversees about \$700 million of municipal bonds as director of fixed income at Haverford Trust Co. in Radnor, Pennsylvania. Its offering "looks pretty clean."

In addition, the sale taps into demand for debt backed by revenue from essential services, said Donaldson before the sale.

"It avoids some of the issues that go with a city like Harrisburg, where so much of the city is occupied by the state and other entities that aren't necessarily taxable but they do pay their water bills," he said.

Wild West

Harrisburg's bout of fiscal turmoil stoked speculation that the ripple effects of the recession would lead to widespread defaults by local governments, which didn't occur. The city of about 50,000 residents was placed under a state receivership in 2011, following an unsuccessful effort to file for bankruptcy protection, after defaulting on bonds for the incinerator overhaul that couldn't generate enough revenue to repay them.

Mayor Stephen Reed, who left office in 2010 after 28 years, was charged last year by the state attorney general for diverting bond proceeds to reward allies and to buy items such as gunfighter Doc Holliday's dentist's chair. Reed has pleaded not guilty. Over his tenure, the municipality spent millions of dollars on ventures from a minor-league baseball team to a Wild West museum that was never built.

In 2013, Harrisburg paid off its incinerator debt of \$362.5 million, about seven times its general-fund budget, partly through the sale of the facility and lease of its parking system.

Refinancing Savings

Capital Region Water is financially independent of the city. It doesn't send money to the government and has no plans to sell bonds on behalf of other borrowers, as the Harrisburg Authority did, Williams said. S&P said the agency gets "high marks" for transparency and accountability.

"We actively engage our residents at every opportunity that we can, to make sure they are holding us accountable," Williams said.

After the sale, the agency will have \$127 million in water bonds outstanding. The refinancing may save as much as \$7 million, which would help keep expenses down, Williams said.

"We will not be buying Wild West artifacts," she said. "I can state that with firmness."

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