Bond Case Briefs

Municipal Finance Law Since 1971

Chicago Suburb Follows City with Securitization, Bypassing Junk Rating.

CHICAGO – A junk-rated Chicago suburb is following the city's lead by securitizing its state supplied sales tax revenue in a $47 million deal.

The bonds priced Wednesday, according to underwriter George K. Baum & Co.

The village of Bridgeview southwest of Chicago published an offering statement and investor presentation Monday. Fitch Ratings released its report assigning a BBB-plus rating to the deal on Tuesday.

At the same time, Fitch gave the village a first-time issuer default rating of BB-plus, one notch below an investment grade. S&P Global Ratings in March dropped the village to the speculative grade level of BB-minus when it cut its rating by four notches from BBB.

Chicago's Sales Tax Corporation received a AAA rating from Fitch ahead of its inaugural $575 million securitization earlier this month that refunded sales tax bonds. It returns next month with a $795 million issue to refund general obligation bonds.

The village has struggled to manage its debt burden after its investment in a stadium to house Major League Soccer's Chicago Fire has fallen far short of fiscal expectations.

The village of 16,000 issued $135 million for the stadium in 2005, which has been followed by tax increases, asset sales, refinancings and restructurings. Bridgeview, which has about $240 million of debt, had previously been considering restructuring debt beyond the useful life of the stadium, according to S&P.

The securitization sale included a tax-exempt A series for $26.6 million and a taxable B series for $20.4 million. The borrower is the special purpose entity Bridgeview Finance Corp.

Baum is the sole underwriter and Austin Meade is advising on the deal.

Proceeds will ease pressures on the village's balance sheet by refunding its 2008A-2 bonds, covering a debt service payment on the village's series 2005 bonds, and financing some capital projects. The B series will refund the village's series 2008B-1 and series 2008B-2 bonds, eliminating the village's floating-rate obligations.

The new securitization bonds hold a first lien on the village's state-collected portion of its home rule sales tax and local share of the statewide sales tax.

"The BBB-plus sales tax securitization bond rating is based on the bankruptcy-remote, statutorily defined nature of the issuer and a bond structure involving a perfected first lien security interest in the sales tax revenues," Fitch wrote.

The legal structure supports a true sale of the revenues and, in Fitch’s opinion, insulates bondholders from any village operating risk. Under the structure, the village will sell all right, title and interest in the pledged revenues to the corporation and the state will direct all pledged sales tax revenues to the trustee.

Louis F. Cainkar Ltd. is bond counsel to the corporation. Burke Burns & Pinelli Ltd. is counsel to the corporation and Quarles & Brady LLP is disclosure counsel. Nixon Peabody LLP is special bankruptcy counsel.

Nixon Peabody gives its “reasoned and qualified opinion” in the offering statement that were the village to enter a bankruptcy – which is not currently allowed under state law – the corporation “would not be subject to substantive consolidation with the village nor would payments to bondholders be subject to the automatic bankruptcy stay.”

The village’s finance director referred calls for comment on the transaction to Dan Denys at Austin Meade but he did not return calls to discuss the deal.

The review of the pledged sales tax being leveraged drove the sharp contrast between the Bridgeview and Chicago ratings. Bridgeview faces stagnant growth prospects in its pledged tax revenue and the tax base faces risks from a concentration of the top 10 tax generators accounting for over half of pledged sales taxes.

The differential in ratings “proves the point that we look at the underlying sales tax base,” Fitch analyst Matthew Wong said in an interview.

“It’s a very stark contrast with Chicago,” analyst Amy Laskey said.

Fitch said a severe decline would pressure the rating but collections have shown resilience through economic cycles. Coverage is strong and sales tax revenue is able to tolerate a 66% decline to 1 times coverage. No additional debt is allowed under the bond resolution.

Fitch’s speculative grade issuer default rating reflects a “very high liability burden” that includes its bonded debt and pension liabilities which are at 61% of village personal income.

“The village has made several budget management decisions in the last several years that have eroded its ability to support operations, including general obligation backing of the Chicago Fire stadium,” Fitch wrote. “Fitch expects that ongoing budget management may be somewhat constrained by the sales tax securitization issuance as it diverts a portion of its sales tax revenue away from the general fund to pay for debt service and may require a corresponding increase in property tax rates.”

The Illinois General Assembly approved the new local borrowing program over the summer at Chicago’s behest as a means to bypass weak general obligation ratings by using a bankruptcy-remote structure.

Some market participants say the sturdiness of the new structure can’t truly be known until tested. They cite the ongoing challenge to some Puerto Rico’s debt. Others warn that the program could be abused by borrowers that lack fiscal restraint.

The stark rating differences between Chicago and Bridgeview provide “a great example of why techniques like securitization have to be viewed on an individual basis,” said Joseph Krist, a partner at Court Street Group LLC. “Securitization in and of itself is not a panacea for credits across the board.”

Krist said he sees why the securitization is attractive to the village because it provides a path to achieve some of its fiscal goals while addressing a market concern over its GO credit largely due its investment in a sports stadium that has disappointed.

When S&P junked the rating in March, it placed the rating on CreditWatch for a possible further downgrade due to concerns over market access and weakened liquidity. S&P removed the watch status and assigned a negative outlook in August after the village successfully modified its letter of credit with BMO Harris Bank NA. The village had been looking at borrowing to pay off $25 million of debt. BMO agreed to an extension of its amortization schedule. The securitization sale will allow the village to shed the floaters.

By Yvette Shields

BY SOURCEMEDIA | MUNICIPAL | 12/20/17 07:18 PM EST