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Risky Trash-to-Treasure Ventures Backed by Muni Bonds Hit Snags.

- **Fertilizer Plant and Desalination Project Plagued by Delays**
- **'There are a lot of moving parts,' one executive says**

A plant in Florida that converts excrement and food waste into fertilizer. A Washington mill that will produce pulp from straw that remains after wheat harvests. A Texas facility that takes brackish water from a desalination plant, extracts minerals and produces clean water.

These are among the businesses financed with unrated tax-exempt municipal bonds. They're also examples of projects that have run into construction delays or environmental problems, forcing them to restructure their debt or pile on more, underscoring the risks in buying high-yield municipal securities.

On August 7, Enviro Water Minerals Company issued $6.8 million of subordinate debt with a 15 percent interest rate to finish the first-of-its kind plant to convert wastewater from El Paso's desalination plant into fresh water and minerals for the agriculture and oil industries. The facility, initially financed with $48 million of municipal bonds in December 2015, was supposed to open last spring.

"Once you build one of these plants, you hope it's like a refrigerator, you plug it in and its cold, you're happy," said Hubble Hausman, EWM's chief executive officer. "But there are a lot of moving parts; we've just encountered more than our fair share of mechanical defects."

Financing of speculative projects that aim to turn trash into treasure have flourished in the $3.8 trillion municipal securities market as yield hungry investors pour money into mutual funds that invest in riskier debt. In the last 14 months, startups that plan to produce jet fuel from wood and lumber from rice waste have issued almost $650 million of tax-exempt bonds.

Boosted Returns

The influx of cash has boosted returns on the riskiest securities. High-yield municipal bonds have returned 4.83 percent this year, compared with 0.27 percent for investment grade state and local government debt. Over the last three years, non-investment grade tax-exempt securities has returned an annualized 7 percent.

Florida-based Anuvia Plant Nutrients borrowed $64 million of tax-exempt bonds with an 8 percent coupon in 2014 to build a plant that converts human waste and food industry byproducts like peanut shells and whey into "eco-friendly" fertilizer for farmers, golf courses and lawn-care operators. The fertilizer doesn't leach nitrogen, reducing greenhouse gas emissions and landfill waste, said Anuvia general counsel Margaret Richardson.

"If you're making peanut butter, you have a whole bunch of leftover stuff," she said. "We have a way to divert tons, literally, of product out of landfills."

The project, based about 25 miles (40 kilometers) northwest of Orlando, was hindered by construction delays, which prevented Anuvia from selling the fertilizer in the 2016 crop year. The following year, production was interrupted because of a local treatment plant's inability to process the volume of Anuvia's wastewater, even though officials had granted permits for that amount, according to securities filings. Anuvia changed its wastewater to meet the city's requirements.

'Breathing Room'

Anuvia's bondholders, including ColumbiaThreadneedle Investments and Macquarie Investment Management, agreed to defer interest payments due in January and July and cut principal by $14 million. The agreement also extends the maturity of the debt.

"The bondholders agreed to basically give us a little bit of breathing room as we continue to ramp up capacity," said Richardson. The plant will run at capacity in 2019, she said.

Bloomberg Valuation estimates that Anuvia's debt is worth 63.8 cents on the dollar, down from 106 cents two years ago. Liz Kennedy, a spokeswoman for ColumbiaThreadneedle and Jessica Fitzgerald, a spokeswoman for Macquarie, declined to comment.

Enviro Water Minerals was scheduled to open its facility at El Paso Water's Kay Bailey Hutchison Desalination Plant, the biggest inland desalination plant by volume in the U.S., in 2017. Getting the EWM facility running has taken longer than expected because valves haven't worked properly and the manufacturer of parts used in settling tanks sent the wrong ones, causing a 6-week delay, said CEO Hausman.

"It's nothing that's insurmountable, nothing that says this isn't going to work," he said.

Nuveen owned almost all of EWM's bonds as of July 31, according to securities filings. Hausman said the firm bought the subordinate debt. Kathleen Cardoza, a Nuveen spokeswoman, didn't respond to a request for comment. Under a forbearance agreement, the bond trustee acting on behalf of Nuveen and the trustee's engineers will get more access and information to the project.

EWM will "refine" waste brine from El Paso's desalination plant, extracting lye, gypsum and hydrochloric acid for sale to farmers and the oil industry. It then will then sell back the 2 million gallons of leftover clean water it will produce each day. El Paso, a city of 600,000 on the border with Mexico gets some of its water from the Rio Grande, which is drying up. The city's population is expected to double by 2040.

"'This is a really exciting project for the water industry," Hubble said.

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