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Municipal Buyers Embrace Risk With Recycling Deals: Joe Mysak

- **Deal in South Carolina for expansion of wood pellet mill**
- **Unrated, high-yield deals sold only to qualified buyers**

The municipal-bond market is serious about waste.

Each week's calendar seems to contain some form of deal that promises to convert waste into something useful.

There's the California recycler that will save glass collection companies from having to pay to take hitherto unrecyclable glass to landfills. It will pay them instead to deliver all of their glass to a mill that will turn 100 percent of it into new glass and cement, among other things.

Or take the Arizona facility that will convert cow manure and food waste into methane, which will then be sold to British Petroleum.

Now comes the South Carolina Jobs-Economic Development Authority with a $12.1 million issue of revenue bonds for the Jasper Pellets LLC project. The proceeds will allow the company to buy, renovate and expand an existing wood-pellet production facility in Ridgeland, South Carolina, quadruple its production, and truck the finished product to Savannah, Georgia, where it will be shipped to Europe. The company already has a contract with CM Biomass Partners, a subsidiary of a Danish firm, for the pellets, which are used as fuel.

Jasper Pellets intends to buy its feedstock from lumber mills in Georgia and South Carolina. It's "generally sawdust and chips and other processing materials which are residual products with little economic value," in the words of the preliminary offering memorandum.

Like the glass recycler and cow manure processor, the pellets deal is unrated and being sold only to qualified institutional investors in $100,000 denominations. The recycler deal hasn't been priced yet. The $61 million cow manure bonds were priced to yield 7.5 percent in 2033. The feasibility study to the pellets deal presumes a 7.25 percent coupon.

These are designated Green Bonds and tax-exempt, unless you're subject to the alternative minimum tax.

It's hard not to imagine that these kinds of deals will be replicated in state after state. One banker told me he had bond issues for a plastic bottle recycler in the works, as well as for an anaerobic digester that would turn biodegradable material into gas.

The municipal market only re-embraced risky transactions like this, last common in the 1990s, in the last few years. This new generation seems to be on a little more solid footing, a little less speculative. And it is Feel-Good. It's hard not to root for worthy projects designed to help clean up the environment.

If you were looking for the Next Next Thing in municipal finance, this is it.

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(Joe Mysak is a municipal market columnist who writes for Bloomberg. The observations he makes are his own and are not intended as investment advice.)

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