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Muni-Bond Market Is Already Seeing a First Wave of Distress.

- **At least 8 senior care centers report troubles since mid-March**
- **Factories, medical centers, Las Vegas monorail affected, too**

Signs of distress are creeping into the muni market.

With local economies grinding to a virtual halt, businesses closed and more than 22 million Americans thrown out of work, the fallout is rippling through the $3.9 trillion market that finances far more than just governments that virtually never default on their debts. Hospitals, airports, stadiums and speculative ventures like the Virgin Trains USA railroad in Florida have also sold debt through government agencies — and it's backed by the money generated by their businesses.

Analysts widely expect to see more defaults in the state and local debt market, adding to the nearly $1 trillion of fixed-income securities that by last month had already tipped into distress nationwide, though the scale will depend heavily on how quickly the economy recovers. Speculation about such strains contributed to a record-setting pullback from municipal-bond funds last month, sending prices tumbling by the most in at least four decades until they rebounded on optimism about the $2.2 trillion economic stimulus enacted in Washington.

But some borrowers have already started warning bondholders about the impacts of the pandemic. Here are a few of them:

Senior Living

Senior living centers were already among the riskiest borrowers in the municipal market and the deadly pandemic that's swept through many homes for the elderly has made them even more so. At least eight senior living facilities have either defaulted or reported some kind of trouble since mid-March, according to data compiled by Municipal Market Analytics.

PSL Wiregrass LP, which issued $23 million bonds through Capital Trust Agency in Florida to build an 110-bed senior living facility, defaulted on its April 1 interest payment, in part because of cost increases connected to the virus. The Trousdale Foundation had to draw on reserve funds to make a April 1 bond payment, saying its financial strains have been "exacerbated" by additional staffing and safety protocols.

Factory Closures

A tire recycling company in Terre Haute, Indiana, said it won't be able to make loan payments backing municipal bonds sold in 2017 after the facility suspended production due to the virus, according to an April 6 regulatory filing by Pyrolyx USA Indiana LLC. The company has an interest payment due on June 1 it is unlikely to make.

Columbia Pulp I LLC, a waste-to-pulp facility in Washington, has also suspended operations. Because

of the uncertainty about when it will reopen, the company said it is looking to pursue “additional sources of capital to sustain its operations through this challenging time,” according to an April 6 filing.

A California company building the world’s first facility for converting debris from rice cultivation into fiberboard said it will run out of money in May, according to a filing to bondholders by CalPlant I LLC. The company said the coronavirus pandemic has caused construction delays and higher expenses.

Proton Facilities

The Provision Cares Proton Therapy Center, which operates facilities in Tennessee, said April 2 “under normal operating conditions, the operating proton centers have been unable to generate sufficient cash flow to service the bond debt.” But the reduced number of patients because of the virus outbreak has made it even worse. Provision estimated the center’s cash deficit after debt service for 2020 will be negative $16.9 million, a $6.5 million increase from 2019.

Transportation

Virgin Trains USA, which runs a passenger railroad in Florida, issued a combined $2.7 billion in municipal bonds in 2019 to fund its extension to Orlando, a crucial step in its effort to turn a profit. It temporarily shut down after tourists and business travelers disappeared virtually overnight. In a disclosure document to bond holders the company said they plan to “monitor the situation” to decide when to reopen, maintaining that the construction work on the new leg is continuing on schedule. Ben Porritt, a spokesperson for Virgin Trains, declined to provide additional comment.

The Las Vegas Monorail, which has already gone bankrupt once, asked for bondholders’ consent to use cash in reserves for operations and to temporarily suspend required payments to those funds, according to a letter dated April 3. The Monorail indefinitely suspended service on March 18.

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