

# **Bond Case Briefs**

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## **Wisconsin Public Finance Authority - More Scandal.**

In our October issue we featured this Wisconsin bond issuing authority for its assuming authority to approve municipal bond issues for projects in a dozen other states. We addressed this as being an infringement on the sovereignty of other states and questioned the motivation for such action and the ethics of doing so. Note that our attention to this situation was not by accident, but rather, by the fact that a number of these bond issues had defaulted. This was also not the first time we raised the integrity issue about this authority.

In our August 2018 issue, we wrote a front page feature article about a \$10.8 million bond issue approved in November 2017 by this Wisconsin authority for a Nevada corporation domiciled in Texas and underwritten by a regional Texas brokerage firm. The company involved called Integrity Aviation Finance was in the jet engine leasing business with an 8 engine inventory. It used \$2.5 million of the bond proceeds to pull all of its equity out of the company. Equity which was based on unaudited financial statements. Our attention was drawn to the bonds in 2018 because the trustee was seeking to declare the bonds in default because the company refused to supply audited financial statements. Bondholders ignored the trustee request since the bonds had an 8% coupon and were current on the interest payments. Despite this, bonds started being sold and dropped in price to the mid 30s, unique pricing for a bond that was current on its interest payments and only offense was a failure to file audited financials.

As we warned in 2018, expect to read more about this issue. Things quickly went from bad to worse. Several engines were leased to a Miami leasing firm which has since declared bankruptcy. Now the trustee is scrambling around to assure the engines don't become part of the bankruptcy estate. Also, two engines are held by the Ethiopian airline pending payment for repair work. Added to this is that payments to the trustee were \$256,000 in arrears. Any future normal debt service of any sort for these bonds is unlikely.

Bondholders have finally decided to pay attention and have authorized the trustee to accelerate the bonds. This will probably generate a bankruptcy filing by Integrity. Meanwhile, bonds have been trading in October at prices from 4 to 18. I suspect that 4 is a more likely number for eventual recovery.

While the Wisconsin authority cannot be directly blamed for the above events, poor due diligence at the authority level is clearly evident. The principals of Integrity did not have particularly glowing resumes and proved to have little integrity. The Nevada domicile is questionable. The approval without audited financials is negligent. The bond indenture provisions and use of proceeds restrictions were not clear or definitive. At some point it may become clear to the bond market that Wisconsin authorized bonds need to be more closely scrutinized or just avoided, especially when they carry an above market interest rate. We also believe that the states whose bond issuing authority is being undermined should jointly complain to more responsible individuals in Wisconsin to remove this taint to its standing in the municipal bond market. And in case you think this is a one-off incident, read about the Wisconsin authorized bond for the Nevada Goodwill Industries bankruptcy or the Maryland Proton cancer center.

We note that the authority has moved to now calling itself the “Public Finance Authority” without any mention of Wisconsin. This appears to be either an intentional misleading of bond buyers or an overt attempt to expand their mandate without having to explain away inquiries about defaulted issues. In a recent prospectus the following language explains where the Authority gets its power. “The Authority was established by local government, primarily for local governments, for the public purpose of providing local governments a means to efficiently and reliably finance projects that benefit local governments, and nonprofit organizations and other eligible private borrowers in the State of Wisconsin and throughout the country.” In short, 4 Wisconsin counties and one city have given themselves the power to authorize municipal bond issues anywhere in the USA. What hutzpah!

## **Forbes**

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