

Bond Case Briefs

Municipal Finance Law Since 1971

Barclays Bond Deal Shows Limits to Vow on Financing Prison Firms.

- **Barclays had joined banks vowing to halt financing to industry**
- **Bank underwriting bonds to build two CoreCivic-owned prisons**

Two years ago, Barclays Plc joined a chorus of major banks announcing that they would no longer provide new financing to private prison companies, whose model of profiting from incarceration has drawn controversy for years.

But the bank is now poised to raise \$634 million for Alabama lockups to be built and owned by carceral giant CoreCivic Inc.

Barclays is the lead underwriter for a bond issue scheduled to be sold through the Public Finance Authority, an agency in Wisconsin set up to rent its access to the municipal-debt market. In this case, the debt is being sold on behalf of an entity fully owned by Tennessee-based CoreCivic. The proceeds will be used to build two new prisons to be leased and staffed by the Alabama Department of Corrections.

While Barclays isn't directly lending to CoreCivic, the bond deal illustrates just how entangled private prison companies remain in the financial system and the limits to banks' pledges to avoid them.

"At the direction of the State of Alabama, Barclays has worked alongside the state's representatives and advisors to finance the procurement of two new correction facilities that will be leased and operated by the Alabama Department of Corrections for the entire term of the financing," the bank said in an emailed statement to Bloomberg News. "The commitment we made in 2019 not to finance private prison companies remains in place."

After facing pressure from Democrats in Washington and prison reform activists to sever ties with the industry amid heightened use of immigrant detention centers under former President Donald Trump, Barclays in 2019 joined Bank of America Corp., JPMorgan Chase & Co. and Wells Fargo & Co. in saying that it would stop providing new financing to private prison companies. The London-based bank said in 2019 it would allow a then-existent credit facility to expire.

Alabama officials have said the deal with CoreCivic will help it improve conditions within its prison system after the state and its corrections department was sued by the U.S. Department of Justice in December 2020 for failing to protect male prisoners from violence and unsanitary conditions. Alabama Attorney General Steve Marshall said in an emailed statement that the lawsuit disregarded the "immense progress" that the state has made in improving its prisons.

"Leasing and operating new, modern correctional facilities without raising taxes or incurring debt is without question the most fiscally responsible decision for our state," Alabama Governor Kay Ivey said in a February statement on the lease agreements with CoreCivic. "We are improving public safety, providing better living and working conditions, and accommodating inmate rehabilitation all

while protecting the immediate and long-term interests of the taxpayers.”

The \$634 million of bonds, for which Barclays is serving as the lead underwriter, won't be considered CoreCivic debt. They're being issued for Government Real Estate Solutions of Alabama Holdings LLC, which is 100%-owned by CoreCivic, which is listed in the prospectus as the project's sponsor. The new prisons will be leased and staffed by Alabama's corrections department.

A spokesperson for the Alabama governor's office declined to comment on Barclays' involvement in the deal, and a representative for CoreCivic directed a request for comment to the bank.

Another \$215.6 million in debt may also be sold through a private placement, according to offering documents. The deal was outlined to investors in a March 31-dated roadshow presentation by CoreCivic executives, including Chief Executive Officer Damon Hininger, and Barclays bankers.

Lease payments made by Alabama will be used to pay off the debt. The corrections department has agreed to prioritize the lease payments above all other obligations to the extent allowed by law, according to the investor roadshow. Through state appropriations, the Alabama corrections department has committed to make payments that will cover outstanding debt service obligations in the case of an instance like a lessor default.

Because of the state's commitments under the lease agreement, the bonds are expected to receive an investment-grade credit rating, according to a person familiar with the matter. The bond sale is scheduled to price later this month.

Alabama Department of Corrections Commissioner Jeff Dunn said in a statement in February that the facilities would provide a safer environment to deliver “effective, evidence-based rehabilitative programming” to people who are incarcerated.

“Leasing, staffing, and operating modernized prison infrastructure that is owned and strictly maintained by the private sector minimizes our short- and long-term risk for an initiative of this necessary magnitude,” he said.

Bloomberg Markets

By Amanda Albright and Danielle Moran

April 2, 2021, 5:24 PM MDT

— *With assistance by Davide Scigliuzzo*