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Stifel Pressured to Drop Controversial Alabama Prison Bond Deal.

- **Banking customer, local activists lean on investment firm**
- **Two banks dropped out as underwriters on \$634 million issue**

Stifel Financial Corp. is being urged to pull out of a controversial municipal bond financing for two privately owned prisons in Alabama that activists have described as “toxic.”

The funding plan has not moved forward after two other banks serving as underwriters on the \$634 million publicly offered bond issue — Barclays Plc and KeyBanc Capital Markets — dropped out of the transaction last month after facing pressure from activists and investors. The agency issuing the bonds on behalf of a CoreCivic Inc.-owned entity also left the transaction, and so did the bond trustee.

The St. Louis-based bank said it acknowledged the concerns and that there were “many sides” to the issue, according to a letter sent Thursday to activists that was provided to Bloomberg News by a bank spokesperson. The financing would build new prisons that are publicly run but owned by prison giant CoreCivic as part of an effort to address poor infrastructure in the state’s prison system.

Justice Capital, an impact investing firm, said in a statement on Thursday that Stifel “has yet to pull out of the deal, concerning clients and the larger investment industry.” The firm, along with representatives firms like Basso Capital and Candide Group, and local activist groups like Alabama Students Against Prisons signed a letter to Stifel CEO Ronald Kruszewski about the transaction. A separate group of activists also sent a letter to the bank about the financing.

Veronica R. Johnson, deputy director of the Alabama Justice Initiative, sent a letter to Kruszewski on behalf of different activist groups this week. The letter asked him to suspend the firm’s involvement in the project. “At present, Stifel is standing alone in financing a project that has been deemed toxic and unethical by peer financial institutions,” the letter said.

“Although there are many sides to this issue and little common ground, we believe that there is a general acknowledgment that the State of Alabama faces challenges in the current and historical operation of its correctional systems,” Stifel’s Joel Jeffrey, senior vice president for investor relations, wrote Thursday in response.

Jeffrey invited Johnson to contact him to discuss the issue in more detail. The Stifel letter added that the bank doesn’t comment on potential transactions and that it’s not party to the state’s political process to figure out potential solutions.

A spokesperson for the bank declined to comment further.

Alabama Governor Kay Ivey has said the prison projects will move forward, but a spokesperson for her office earlier this week declined to provide additional details on the plan for the financing.

Barclays' decision to drop the financing last month is a sign of the growing power of investors focused on financing projects that advance social and environmental causes. With billions of dollars flowing into so-called ESG funds, that's created a lucrative new line of business that banks are eager to court.

The prison business has long been targeted by activists who say the profit-motive gives an incentive to cut costs, hurting rehabilitation efforts.

"We call on Stifel and all investors and financial institutions to stop the financing of mass incarceration and urge them to join us in making investments in community-led public health, safety, and infrastructure to become a part of the solution," Christina Hollenback, founding partner Justice Capital, said in the statement.

A client of Stifel, hedge fund Basso Capital, had concerns about the bond deal, the statement added.

"As a long-standing trading client of Stifel, we are halting our business with them as long as their policy to finance mass incarceration stands, and we urge other Stifel clients and partners to do the same," Howard Fischer, chief executive officer of Basso Capital, said in a statement.

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By Amanda Albright and Danielle Moran

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