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White Plains Warned about Looming \$1.7M Default on City Center Garage Bonds.

The city of White Plains has been warned of a projected \$1.7 million shortfall in revenues from the City Center garage and a looming payment default on the municipal bonds that financed the garage.

If the bonds default when the next payment is due in October, the city's financial reputation would be damaged, according to a letter sent to Mayor Thomas Roach and obtained by the Westchester County Business Journal.

Ratings agencies and capital markets "will penalize the city if it is seen as not taking seriously the looming payment default on the City Center bonds," Steven J. Berkowitz, president and CEO of ACA Financial Guaranty Corp., states in the May 21 letter.

"The least onerous effect would be higher interest rates on future bond offerings. More severe consequences would be a ... rating downgrade, to say nothing of a lack of buyers for the city's bonds and notes."

ACA Financial Guaranty, based in Rye, insured the bonds and is obligated to pay the bondholders if the bonds default.

A default could easily be averted, according to ACA spokeswoman Maria Cheng.

But White Plains does not accept responsibility.

It does not own the garage and is "not obligated on the bonds in any way," Karen M. Pasquale, senior adviser to Mayor Roach, said in an email. "The city cannot allow its taxpayers to take on a burden that does not belong to them."

ACA Financial Guaranty acknowledges that the bonds are not a general obligation of the city, but ultimately, according to the letter, the city must "pursue any and all revenue sources" to secure the bonds.

The garage is a part of the vast City Center urban renewal project, across the street from City Hall, at Main Street and Mamaroneck Avenue. In 2001, Cappelli Enterprises Inc. proposed a \$42.37 million, 9-story 2,370-space garage as part of a \$300 million retail and residential center.

In 2003, the Westchester County Industrial Development Agency issued nearly \$27.25 million in bonds to finance the garage. White Plains issued a separate, \$24 million bond to finance construction.

The city's bond issue is almost paid off, Pasquale said, and "the city of White Plains has met all of its obligations" to support the larger bond issue.

Bond documents paint a more complicated picture of a public-private partnership between the

developer and city agencies:

- the city acting through the nonprofit White Plains Center Local Development Corp.;
- the city's Urban Renewal Agency, the White Plains Parking Authority;
- the Common Council; and
- LC White Plains, formerly controlled by Cappelli Enterprises and now owned primarily by Kite Realty Group of Indianapolis.

The city owned the site and deeded it to the urban renewal agency. The urban renewal agency leases 200 parking spaces to the city and the rest to LC White Plains.

The parking authority operates the garage, collects the parking fees and pays the operating expenses.

The city's commissioner of finance is the fiscal agent. The city's commissioner of public works is responsible for repairs. Common Council has sole authority to set parking rates.

LC White Plains is responsible for paying the bonds, but it is dependent on parking revenues collected by the city.

It all depends on parking revenues, Cheng said. But revenues have been declining as operational costs have increased.

In the past 5½ years, for instance, net income for the City Center garage has narrowed by 51%, according to documents filed with the Municipal Securities Rulemaking Board.

Several warnings also have been posted on the board's public database. In September 2018, Wilmington Trust, the bond trustee, warned that a reserve fund that is supposed to have enough money to cover the annual bond payments was short by \$1.6 million.

Wilmington Trust posted another notice this past February, citing ACA's concerns about the depleted reserve fund.

Cheng said ACA has been trying to get the city's attention for years.

"We've been unable to even engage in a conversation with them," she said. "We've sent letter after letter since 2018. ... Then the pandemic hit, and now it's worse. It's like hammering on a festering wound."

One way to fix the problem, according to Berkowitz's letter, is to raise parking rates, an action, according to the bond documents, that only the Common Council can take.

Pasquale said ACA had proposed a 75% parking fee hike, "which is unacceptable."

Another solution is refinancing. The original bonds were issued at 6% to 6.25%. Now municipal bond interest rates are much lower, and the City of White Plains has a strong credit rating.

Cheng said the city could borrow money at 1.5% to 2%, saving more than enough to cover the shortfall and not have to raise parking rates.

The City Center garage bonds are already in default, Cheng said, for breaking covenants in the bond agreements. But failure to make the next semiannual payment in October would be more serious.

"A payment default," she said, "is the Big D."

She said ACA ultimately will not lose in a default. It would have to pay the bondholders, but then it could demand that LC White Plains cover the shortfall.

But a payment default would have serious implications for White Plains' overall bond rating, the Berkowitz letter states, and "will ultimately hurt White Plains residents through increased borrowing costs that will have to be financed by taxpayers."

"This is a moral obligation on the city," Cheng said, and other municipalities that have walked away from moral obligations have seen their credit ratings worsen.

"The capital markets will say, 'How come? ... You could have addressed the problem.'"

If the problem is not addressed, Cheng said, "the city will hit a wall in October."

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By Bill Heltzel – June 24, 2021

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