

# **Bond Case Briefs**

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## **Muni Bankers See Texas Fee Bonanza With Schools Racing to Build.**

- **Population boom in Texas has schools borrowing to expand**
- **GOP battle with Wall Street threatens lucrative business**

A population boom in Texas is fueling a surge in borrowing by schools that need to expand. On Wall Street, bankers are eager to get their share of more than a quarter of a billion dollars in underwriting fees from bonds financing all that construction.

Texas voters have approved \$53 billion of school bonds since 2017, a 50% increase over the previous five years, according to data compiled by the Texas Bond Review Board. Since the sales are typically spread out over time it means years worth of lucrative business. Schools in Texas this year paid banks a fee of about \$5.13 for every \$1,000 of bonds, meaning there was roughly \$272 million at stake.

“The K through 12 market is perhaps the most important segment of the muni market in Texas,” said Ajay Thomas, head of public finance at FHN Financial in Austin.

The borrowing comes as the state’s population grew by about 4 million over the past decade, with roughly 1,000 people moving in every day, lured by low taxes, affordable homes and plentiful jobs. But the borrowing binge comes as Republicans who control the Texas statehouse have clashed with Wall Street over issues such as guns and climate change and threatened to curb municipal-bond underwriting for some of the biggest banks.

Data reported to the Texas Bond Review Board indicates school districts have sold less than half of the bonds approved by voters since 2017, a report published in August shows. That data though is compiled through various sources and likely doesn’t capture all authorized bond sales.

School bonds accounted for more than a quarter of all sales in Texas this year, the largest sector in the state, data compiled by Bloomberg shows. And districts are consistently in the market, often with decently sized deals. While the average sale throughout the municipal market is roughly \$50 million, there were more than three-dozen Texas school bond sales of more than \$100 million each this year and more than 10 that were larger than \$200 million, the data shows.

Large-ticket borrowers like big cities, major airports or the state’s department of transportation, on the other hand, come to market once or twice a year and often rotate their underwriters. That leaves banks a shot at managing just one of those big deals every couple of years.

“That’s not that many bites at the apple,” said Keith Richard, head of the Texas region at Siebert Williams Shank & Co. “Two hundred million is a large deal; everyone wants to do a deal like that and there are way more of those deals in K-12 than there are anywhere else.”

The explosive population boom has forced districts, particularly those in the suburbs of the major metro-areas of Austin, Dallas, Houston and San Antonio, to expand and build new schools. Public

school enrollment in Texas has grown by about 11% in the last decade, according to the National Center for Education Statistics projection data. In New York, that number fell by about 1%, the data shows.

The Texas school bond industry is very much a handshake business where long-standing relationships are imperative. That has Wall Street shops in Texas recruiting school officials to help open doors. The Texas public finance groups at Robert W. Baird & Co Inc, Raymond James Financial Inc, and Piper Sandler, among others, all have former school financial officers or superintendents on their payrolls.

“When I was on the other side of the table, I didn’t do business with people I didn’t have complete trust in,” said Steve Fortenberry, a vice president at RBC Capital Markets, who spent the first three decades of his career working in school administration as the chief financial officer for districts in Plano, McKinney and Fort Worth.

The Fort Worth Independent School District asked voters to approve a \$1.2 billion ballot measure in November, the largest proposition anywhere on election day. The measure, which will finance a new elementary school to ease overcrowding and pay for major renovations to existing facilities, passed by 57 votes.

There were 223 school bond measures on the ballot in Texas in May and November, 145 of which passed, totaling about \$11.7 billion. Still, in November just over half of propositions failed — signaling that voters weren’t universally willing to open up their wallets. That has district officials worrying about missing out on borrowing rates hovering near record lows.

“Any future bond market may not be as advantageous,” said Elaine Cogburn, chief financial officer of the Leander Independent School District outside of Austin, which saw voters in November reject two of three bond measures worth nearly \$740 million.

Meanwhile, muni bankers across Texas are working their connections with district officials to get a shot at the billions worth of bonds that voters have authorized but haven’t yet been issued.

“I’ll just keep knitting the blanket, calling on people and forging those relationships,” said RBC’s Fortenberry. “The market-share and the growth are going to follow.”

## **Bloomberg Markets**

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— *With assistance by Nic Querolo*