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Recyclers Are Lining Up for the Municipal Market's Cash.

- **Turning plastic into petrochemicals, sugarcane waste into fuel**
- **Debt for wood-chip-to-insulation plant sells at 8% in 2051**

In Washington state, municipal bonds are financing a project to convert plastic waste into petrochemical ingredients. In Louisiana, municipal debt is paying for a biorefinery to turn sugarcane waste into fuel pellets and soil additives.

These are only two of what promises to be another robust calendar of borrowers in the recycling field in 2022, assuming this next stage of the pandemic doesn't completely quash investors' risk appetite. I base that expectation on several things: the apparent momentum behind such projects nationwide; the pace of deals I've observed this year, with at least three this month alone; and the unrelenting appetite for speculative offerings with long-term yields still historically low.

This is the high-risk, high-reward part of the municipal market. As we've seen time and again, it's hard to take one thing and turn it into something else, which is why \$1 billion in recycler bonds are in the Bloomberg Default/Distress Report.

We only got a glimpse into the plans of these latest entrants — from Washington and Louisiana — because they each sold bonds whose proceeds will be held in escrow and invested in securities backed by the U.S. government. The newly sold debt earned top ratings, with the companies planning a mandatory tender and remarketing in 2022. Companies typically do this to avoid losing their allocation of private activity bonds.

Offering documents gave no indication of a likely rating for the next round of borrowing. But the typical recycling deal is most often unrated or speculative grade.

Coming Attractions

Prospective buyers for these two issues got preliminary limited offering memoranda that were more like coming attractions.

The Washington Economic Development Finance Authority sold \$50.8 million in environmental facilities revenue bonds for the Mura Cascade ELP LLC project in late November. The project aims to convert 130,000 tons of plastic waste into about 100,000 tons of petrochemical ingredients.

The accompanying document was 56 pages, with an appendix on the company that was only five pages, but was promising: "Mura is seeking to change the way that society views end-of-life plastics, in that it should be looked at as a valuable resource and not as a waste product."

And this: "It is Mura's ambition to be the largest producer of renewable petrochemicals globally with a production capacity of one million tons per annum by 2025."

Last week, the Louisiana Local Government Environmental Facilities and Community Development Authority sold \$60 million in revenue bonds for the American Biocarbon CT, LLC project, to be

located at the Cora Texas Sugar Mill in White Castle, Louisiana.

The preliminary official statement is a mere 80 pages, the description of the project a few sentences. This included the statement that the company already operates a “demonstration scale plant with similar equipment configuration, but less product quantities. This demonstration scale plant is capable of producing approximately 10,000 tons per year of pellets and up to 5,000 tons per year of biochar, consuming 30,000 tons per year of bagasse when at full operation.”

Sugarcane Waste

This is at least the second plant contemplated or under construction to recycle bagasse, which is what they call sugarcane waste. In 2019, I wrote about Southeast Renewable Fuels LLC, which wanted to sell \$190 million in bonds to finance a mill to turn bagasse into pulp. The company’s website says it has obtained approval from the state of Florida to sell industrial revenue bonds, but it doesn’t seem to have done so yet, so we may see two bagasse recyclers financed in the muni market in 2022.

A previous bagasse recycler came to grief. Back in the early 1990s, Flo-Sun Inc., one of Florida’s largest sugar companies, borrowed almost \$300 million to build two power plants to burn bagasse and, after sugarcane-grinding season, wood. This was to produce steam and electricity.

The plants eventually went bust and the debt defaulted. But the recycling sector’s unpromising history hasn’t deterred new entrants, and buyers continue to line up if the price is right.

Just last week the Finance Authority of Maine sold \$85 million in unrated bonds for a company that wants to recycle wood chips into insulation material. The bonds, sold in minimum denominations of \$100,000, were priced at par to yield 8% to their 2051 maturity, or 651 basis points over the benchmark.

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