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Wall Street Banks Face Biggest Texas Loss Yet in Mega Bond Deal.

- **Texas agency seeks manager for $3.4 billion storm-bond sale**
- **Deal may be state's biggest in at least two decades: Bloomberg**

Some of Wall Street's biggest municipal-bond underwriters, ousted from Texas after they limited business with the gun industry, are now facing their biggest loss of business yet as the Lone Star state seeks underwriters for a $3.4 billion storm-bond sale.

The deal could be the biggest municipal-bond sale in Texas in at least two decades, according to data compiled by Bloomberg. Typically large banks handle sales of this magnitude, but three of the biggest in the country, Bank of America Corp., JPMorgan Chase & Co and Goldman Sachs Group Inc., haven't underwritten a muni sale by the state or its cities since the GOP-led Texas legislature enacted a law in September that blocks governments from working with banks that have curtailed ties to the gun industry.

The Texas Natural Gas Securitization Financing Corp., a public entity established by the Texas Public Finance Authority in 2021, is charged with selling the debt to bail out natural gas utilities stung by huge financial losses after the deadly February 2021 winter storm. Last year's freeze killed hundreds and paralyzed the state for days. The sheer size of the offering promises a windfall of fees to whichever banks ultimately land the contract.

"This is a one-shot deal, dealing strictly with a particular industry and a particular winter storm" Lee Deviney, executive director of the authority, said during a panel at an industry conference in March. "There will be a lot of satisfaction when it gets done because we have never done anything of this magnitude before."

Banks that submit proposals for the contract have to certify they are in compliance with Texas's laws and as such don't "discriminate" against the firearms industry because of the GOP-backed law enacted Sept. 1 known as Senate Bill 19.

Spokespeople for Bank of America and JPMorgan declined to comment. A spokesperson for Goldman didn't immediately respond to a request for comment.

The firms applying for the underwriting contract also can't boycott energy companies, among other requirements like not terminating business relationships with Israel or being a foreign terrorist organization, according to the request for proposals posted on the authority's website. The deal will likely be managed by a team of firms in senior manager and co-manager positions.

To be sure, there are still major players that have continued to do business in the Lone Star state. RBC Capital Markets, Raymond James & Associates and Jefferies Financial Group Inc. are the top three banks in Texas underwriting since Sept. 1, according to data compiled by Bloomberg. Morgan Stanley and Wells Fargo & Co. have also been active in the market. Citigroup also returned in November.

“If there are only a few firms knocked out of responding due to compliance issues, that should not impact performance on the sale as there will still be enough other large muni bond firms that will be able to smoothly execute the sale,” said Martin Luby, a professor who researches public finance at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin.

Deviney said the firms that work with Texas know that they need to be in compliance with all the state’s laws.

“We put our service providers on notice that when they enter into a contract with us they are confirming they are in compliance with all relevant state laws,” he said.

He said that the authority has not yet seen any pricing impact because of the limited competition of underwriters. “We had robust underwriting syndicates and we got excellent pricing,” he said.

August Deal

The RFP was distributed on April 8 and firms have until Wednesday to provide “indications of intent to respond.” They have to ask any questions by April 15, and the formal submissions are due April 22. Banks will then be evaluated and interviewed between late April and early May, and a selection will be made at a upcoming board meeting, the date of which is not yet determined.

Proceeds of the sale will used by eight gas utilities to pay for the “extraordinary cost of natural gas” due to high-demand caused by Winter Storm Uri, according to the RFP. The bonds are expected to be sold by mid-August.

Some gas utilities incurred enormous losses during the 2021 event when bitter cold crippled the second-largest U.S. state’s energy infrastructure and prices for the fuel soared to levels never seen before. As a result, lawmakers last year approved a process known as securitization that will allow repayment to be spread out over decades, easing the financial impact on homeowners and other customers.

The bonds probably will cost customers of the utilities involved about $1.25 a month instead of hundreds of dollars at one time.

In the RFP document, banks are asked how many deals they’ve underwritten nationally and in Texas in the past five years, plus how many transactions over $1 billion they have either senior managed or co-managed. And firms applying to lead the transaction are even asked to recommend their peers.

“If your firm was not chosen to be the book-running Senior Manager for the proposed financing, what firm would you recommend to be the book-running Senior Manager?” the RFP asks.

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