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Alabama Taps Local Banks for Controversial Prison-Bond Muni Deal.

- **Frazer Lanier, Stephens to lead underwriters on sale for jails**
- **Earlier plan was scuttled last year as underwriters pulled out**

Alabama has chosen two small, Southern US banks as lead underwriters for a $725 million municipal-bond deal to finance new state prisons, marking an unusually large transaction for the firms, more than a year after an initial financing attempt was derailed.

Stephens Inc. and The Frazer Lanier Company Inc. will be co-senior underwriters managing the sale this month, according to a preliminary official statement. It's the state's second attempt to finance the project after a plan in 2021 fell apart over controversy about the participation of a private prison company. Raymond James Financial Inc., Wells Fargo & Co. and four other banks are in the syndicate, the bond document shows.

The state and banks that were involved in the prior deal faced an outcry over Alabama's use of private prison giant CoreCivic Inc., which would have built and owned the facilities, leasing them back to the Alabama Department of Corrections.

The underwriter selection is fairly atypical for such a sizable transaction. Combined, Frazer Lanier and Stephens have only underwritten about $491.5 million of municipal bonds this year, according to data compiled by Bloomberg. Neither bank has led a transaction this large before, nor have they senior-managed a sale over $200 million in the last decade, data compiled by Bloomberg show.

They have co-managed a handful of larger transactions but are almost always accompanied by a bulge-bracket bank. For example, Frazer Lanier was involved in a $1.5 billion sale for the Alabama Federal Aid Highway Finance Authority last year, which was led by Bank of America Corp. and included banks such as Goldman Sachs Group, Inc., Citigroup Inc., and Wells Fargo in the syndicate.

Frazer Lanier, an investment bank based in Montgomery, Alabama, is ranked as the 46th largest underwriter of long-term state and local government debt this year, and Stephens, headquartered in Little Rock, Arkansas, is ranked 43rd.

After the sharp rebuke of the earlier proposed bond sale by both investors and activists, the original underwriters Barclays Plc and KeyBanc Capital Markets dropped out of the transaction. Another bank that was set to participate, Stifel Financial Corp., also faced criticism from activists. Without underwriters, the sale collapsed. It would have totaled more than $900 million of debt through both public and private offerings borrowed by a CoreCivic-owned entity.

The state then formed a new plan to develop the two prisons, which the state says will improve conditions for those incarcerated. The legislature approved the sale of bonds and the use of pandemic relief aid from the American Rescue Plan legislation to fund the project.

The Alabama Corrections Institution Finance Authority is selling $725 million of bonds through a

negotiated sale planned for June 28, according to investor roadshow documents. The sale is rated Aa2 by Moody's Investors Service, AA- by S&P Global Ratings and AA by Fitch Ratings. The debt is backed by annual appropriations from the legislature to the Alabama Department of Corrections.

Spokespeople for Governor Kay Ivey, the Alabama Department of Finance and Stephens didn't respond to a request for comment. A representative at Frazer Lanier deferred all questions to Alabama.

When searching for an underwriter to underwrite this transaction, Alabama asked the banks applying for the contract to provide assurances they wouldn't drop out in the face of any activist backlash, according to a request for proposals issued in November.

The document asked respondents to detail how they would market the bonds "considering the result of the design-build-financing sale earlier this year and the overall trend of investors consciously moving away from supporting the infrastructure of prisons."

"Please discuss whether your firm has, or has had, any prohibition from participating on financings related to prisons (public or private)," the request for proposals said. "What assurances, or certifications will your firm's senior management provide that it will not pull out of the financing should investors campaign against your firm from serving in the capacity of underwriter?"

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