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## **Alabama Sells Munis for Prisons After Deal Cut by \$216 Million.**

- **Issue was reduced to about \$509 million after tepid demand**
- **Activists have been critical of the proposal for new prisons**

Alabama wrapped up a \$509 million sale of municipal bonds on Wednesday to finance new correctional facilities in the state, completing the transaction despite weak demand that caused underwriters to shrink the offering by more than \$200 million.

The deal was originally supposed to total \$725 million, and was slashed as it struggled to lure buyers, according to people familiar with the matter. The reduction came mainly in longer-dated segments, where the 30-year maturity was cut to roughly \$71 million from the \$199 million originally offered.

Some municipal-bond managers chose not to participate because the deal would finance prisons, and some socially responsible investment firms had criticized the transaction. Other investors said the yields on the bonds weren't high enough to draw their interest.

Proceeds of the offering, for which the lead underwriters are Stephens Inc. and Frazer Lanier Company Inc., will be used to finance the construction of two men's correctional facilities, each designed to house about 4,000 people who are incarcerated.

The construction of new prisons has been controversial in Alabama, where activists say the projects will perpetuate mass incarceration. The state has one of the nation's highest incarceration rates, according to a 2021 report from the Prison Policy Initiative, a research group.

### **Bruised Market**

The deal came to market amid a challenging environment for municipal borrowing. With the fixed-income universe slumping as the Federal Reserve boosts interest rates to combat inflation, investors have been yanking money from muni-bond funds for months, making it tougher for underwriters to place new issues.

The muni market has lost more than 9% this year, but the longest-maturity debt has absorbed the biggest hit, with bonds due in more than 22 years sinking 15%, Bloomberg index data show.

On Tuesday, underwriters were short around \$200 million of orders on the deal, even after raising yields on some segments, according to people familiar with the transaction. Demand was weak for the 30-year maturity in particular, the people said.

Also Tuesday, the issuer said it was facing litigation from incarcerated people who say Alabama should use funds to improve conditions in its existing penitentiaries before it pays interest on debt.

Lawyer Frank Ozment said in an interview that he filed a complaint in intervention so the court can

clarify that the state should spend money to comply with a December court injunction before it makes bond payments.

In a filing, the state said it has already agreed to prioritize following court orders and consent decrees before paying bondholders, and therefore it doesn't believe the complaint will have any impact on its bonds. It also said it's appealing the December ruling.

A spokesperson for Alabama's finance department didn't have an immediate comment. A representative for Stephens, which is based in Little Rock, Arkansas, declined to comment, while a call to Frazer Lanier's office in Montgomery, Alabama, wasn't returned.

## **Bloomberg Markets**

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June 29, 2022

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