

# THE BOND BUYER

## Pragmatism over politics: Louisiana bond panel moves ahead with Garvees

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The Louisiana Bond Commission voted to move ahead with a negotiated sale of Garvee bonds despite having to use a bank — J.P. Morgan — that it [blacklisted](#) from a deal last year.

At the state Bond Commission's meeting on April 20, there was heated discussion ahead of a vote to proceed in developing a financing plan, including the selection of underwriters, for the state's grant anticipation revenue vehicle [Garvee] bond deal this summer.



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State Treasurer John Schroder, the bond commission chair, told the panel the state has limited options for underwriters since few have the experience and know-how to price the state's \$250 million of Garvees, securities backed by federal grants that allow states to accelerate large infrastructure projects by tapping future funding from the highway trust fund.

The state Department of Transportation projects the state will need about \$250 million in proceeds this summer to complete projects that are currently planned or underway. The panel expects to issue a preliminary resolution in June and a final resolution in July with the sale occurring at the end of July or beginning of August.

This summer's deal would be the state's third Garvee bond issue. It sold \$185 million of Garvees in [April 2019](#) and \$155.24 million in June 2021.

In 2018, the panel [approved](#) Wells Fargo and J.P. Morgan as co-senior underwriters with Wells Fargo as the bookrunner on the first financing and J.P. Morgan as bookrunner on the second deal.

The panel had the option to extend the agreement or issue a solicitation to select new underwriters.

The state's financial advisor, Public Resources Advisory Group, recommended an extension of the deal.

"There's a limited number of firms who have managed multiple Garvee bond issues," said Wendell Gaertner, senior managing director at PRAG. "There's no reason to think there would be a significant change with a new solicitation, which would incur additional time and costs."

Schroder noted only three other banks had done more than one Garvee deal: BofA, Citi and Goldman Sachs. He said this was because these deals are more sophisticated than plain-vanilla GO or revenue bond deals and not as many banks do them.

"I think all of America knows that BofA and Citi aren't on our 'best list,'" he said.

The panel voted to adopt the plan of financing and extend the agreement with Wells Fargo and J.P. Morgan Securities as the underwriters, with Craig Cassagne, who represented state Attorney General Jeff Landry on the board

during the meeting, objecting. Cassagne questioned why the panel would use an underwriter that had been banned from doing a previous sale.

In January 2022, Wells Fargo priced the state's \$643 million of taxable gasoline and fuels tax revenue refunding bonds after the panel had [disqualified](#) J.P. Morgan from underwriting the refinancing due to unanswered questions about its gun policies.

Schroder noted at the time J.P. Morgan was only being disqualified from that offering and was not being removed from the state's list of approved underwriters for negotiated deals. Competitive deals remained unaffected.

"Why is it ok to do business with J.P. Morgan now, since they have same anti-Second Amendment policy in effect?" Cassagne asked, noting the panel could issue a new solicitation.

Schroder said his options were limited since there was only a small pool of underwriters who could successfully manage such a large and complex deal and that a new solicitation would yield the same banks.

"This will save the state time, it will save the state money and we believe we will get a better deal," he said. "I think this is the best deal for the taxpayers."

He noted that any exclusions were not based on any statute or law, rather from a policy that was initiated by the commission five years ago and put in place to work with financial institutions that represent the best interests of state residents.

Schroder noted his personal opinion and politics were separate from his job responsibilities and duty to the taxpayers.

"Nobody's fought against this [anti-gun policies] more than I have. But the reality is we have projects that need to be financed, we have projects that need to start," he said. "What do we do? Nothing? Zero? Tell all the citizens of Louisiana that we don't need bridges, we don't need this and we don't need that?"

He said the deal will finance the work going on in the state and help buttress its economy.

"What are our options? You either pick these banks or you don't," Schroder said. "If you don't, business shuts down. We stop building infrastructure."

Schroder and Landry are both Republicans and are the top contenders vying for the non-partisan nomination for governor to replace term-limited Gov. John Bel Edwards.

They have sparred at commission meetings before.

Last summer, at Landry's urging, the panel held up a request from [New Orleans](#) for funding for a power plant due to the city's pro-abortion stance, which conflicts with state law.

This drew a rebuke from Edwards, who said at the time that it was "a misguided effort from the beginning to ever use the bond commission and any of the work that it does, to send a political message to anyone for any reason."

He added, politics should not come into the state's actions when it comes to infrastructure.

Schroder also voiced his concern that the commission was being used as a political vehicle.

"This is a bond commission. We deal with the finances of the state. You want to send a message, I get that," he said at the time. "But I'm just warning everybody that this is a bad, bad road to get on. I do believe that we are playing politics with this. And I don't like it."

The state's gubernatorial primary is Oct. 14, with the general election on Nov. 18. All candidates compete in the same primary. If a candidate gets more than 50% of the vote, he or she wins the election outright. If no candidate gets over 50%, the top two vote getters advance to a general election on Nov. 18, regardless of party affiliation.

Last month, rather than get caught up in a fight over environmental, social and governance issues, the panel voted to go the [competitive route](#) for a sale of general obligation bonds.

Landry had opposed a planned negotiated deal for the GOs using those underwriters, citing the gun rights issue.

Ahead of the sale, S&P Global Ratings revised the outlook on Louisiana's GOs to [positive](#) from stable and affirmed the state's rating at AA-minus. The state also received its first ever rating from Kroll Bond Rating Agency, which assigned an AA rating to the bond issue with a stable outlook. Last May, Moody's Investors Service [raised](#) the state's GOs to Aa2 from Aa3 and revised the outlook to stable. Fitch Ratings rates the state AA-minus, but does not rate this deal.

A group including J.P. Morgan Securities as senior manager won the \$238.325 million of Series 2023A tax-exempt GOs on April 13 with a true interest cost of 3.1302%. Estrada Hinojosa, Academy Securities, Piper Sandler, Oppenheimer & Co. and Siebert Williams Shank were co-managers.

Also approved at last week's meeting was a line of credit up to \$125 million for the Louisiana Citizens Property Insurance Corp.

The line of credit is not to exceed an 8% variable-rate and mature no later than June 1, 2025. The money would be used to pay insurance claims from hurricane damage if sufficient funds are not otherwise available.

Separately, the treasurer issued a statement to reassure Louisiana residents about the state's finances after the collapse of Silicon Valley Bank in California last month,

"The money belonging to Louisiana taxpayers is safe. Treasury has no exposure to the banks that have been in the news," Schroder said. "We monitor our bank accounts daily, keeping only enough cash to cover our daily transactions. We are a very conservative steward of the state's fiscal assets."

He noted the state's main bank is J.P. Morgan Chase, which has over \$3.3 trillion in assets and over \$302 billion in capital.