

THE BOND BUYER

Indianapolis bond bank selling bonds to renovate arena for NBA Pacers

By

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The Indianapolis Local Public Improvement Bond Bank hits the market this week with a long-planned sale to pay for Pacers' arena renovations and a consolidation and refunding of some existing Capital Improvement Board debt.

The \$390 million issue has long been in the works. It's tentatively expected to price Thursday.

The timing wasn't influenced by the COVID-19 pandemic but some features of the deal were, as officials sought to build in breathing room to manage through the pandemic.



*A rendering of planned renovations for Bankers Life Fieldhouse in Indianapolis, home court of the NBA's Indiana Pacers.
Pacers Sports and Entertainment*

The CIB, which manages the city's convention center and sports stadiums, has suffered deep wounds to the tourist- and entertainment-related taxes that repay debt because of restrictions on convention and sporting event attendance

imposed to limit the spread of the coronavirus. Debt repayment comes from a series of citywide taxes and additional ones levied in a sports district.

We are trying to make our debt portfolio “as efficient as possible” and take advantage of favorable rates, said CIB executive director Andy Mallon. “We get to take control of the amortization.”

The board is moving some capital expenses to debt financing and interest is capitalized through 2024 allowing the board to better match cash flow.

The deal team is hosting investor calls to address any concerns over pandemic related impact on CIB operations or economically-sensitive taxes and to promote what it believes are the deal’s primary strengths. Debt service is pre-funded in monthly, one-tenth increments from pledged revenues; insurance is in place to cover abatement and construction risks; and the project and CIB enjoys city, county and state support.

“It’s a critical driver of our local economy so we are very invested and committed to” the project and CIB facilities, said Sarah Riordan, executive director and general counsel for the bond bank. The city also sent some of its CARES Act federal coronavirus relief funding to the CIB to pay for various personal protective equipment and other expenses needed to improve safety at CIB facilities.

The bonds are secured by various excise taxes and CIB revenue. Various tax sources were expanded and their expiration extended by the state to accommodate the new debt.

The deal will raise about \$254 million of new money for the renovations to Bankers Life Fieldhouse, the downtown home of the National Basketball Association’s Indiana Pacers, under a 25-year lease deal struck in 2019 that committed up to \$320 million of CIB funding for the project. The team is contributing \$65 million to the project and the city \$25 million.

The deal also retires bond anticipation notes issued in 2019 and 2020 to provide interim financing. Another \$22 million provides new money for the CIB and \$115 million restructures existing debt. Some existing debt is also being cash defeased so that only the upcoming issue and a 2007 issue will be outstanding.

In addition to the Pacers arena, the CIB operates the Indiana Convention Center, Lucas Oil Stadium which is home of the National Football League’s Indianapolis Colts, and Victory Field, which is home of the Minor League Baseball’s Indians. The city has committed to a future borrowing of \$155 million of tax-increment financing bonds to finance a convention center expansion.

The CIB ended 2020 with a \$40 million deficit. While the deal provides some buffer for revenues to pick up, the CIB can also use its \$107 million of available balances that are not pledged to debt repayment but face no restrictions on use. The CIB in 2020 drew down balances that stood at \$140 million last June.

BofA Securities and UBS are the senior managers. Crowe is advising on the deal. The bonds mature in 2041. Kroll Bond Rating Agency rated the bonds A-plus with a stable outlook and Moody's Investors Service assigned an A2 rating and stable outlook. The CIB will have \$500 million in rated debt after the deal, Moody's said.

The bonds have a subordinate call on the CIB's original innkeeper's tax; original Marion County food and beverage tax; original supplemental auto rental excise tax; and state cigarette tax. The 2021A bonds additionally will have a senior lien on the 1997 innkeeper's tax; original professional sports development area, or PSDA, revenue; 2009 innkeeper's tax increase; 2013 supplemental auto rental excise tax increase; and hotel PSDA revenue.

The pledged taxes generated \$88 million that would have been available for debt service in 2019. Collections plunged to \$44 million for 2020, based on unaudited results.

The original innkeeper's tax provided the most lucrative source of revenue at \$30 million in 2019. That dropped to \$12.6 million last year. The original county food and beverage tax followed at \$26 million in 2019. It fell to \$20 million last year. A separate hotel tax in the PSDA dropped to \$2 million last year from \$8.2 million.

From 2009 to 2019, revenues had grown at an annual rate of 6%, following a 10% decline during the Great Recession.

Tax wounds and cancellations and diminished attendance levels are expected through 2021, the offering statement warns.

Officials report some positive signs. The Pacers beginning last month sold 1,000 tickets per game in the first part of the NBA's revised season and has since raised sales to 4,500 or 25% capacity. The NCAA, because of the pandemic, will host its entire Division I men's basketball tournament in Indiana with many of the 67 games at CIB facilities.

Convention center business is hard to predict as that depends on vaccine distribution, control of the virus' spread, and a willingness of conventioners to return.

“KBRA believes that a rebound in convention center bookings is tied to widespread distribution of the coronavirus vaccine, and views the city’s strong and diversified economy, and prominent convention destination as a foundation for a rebound,” the rating agency said in its deal report.

Moody’s notches the rating off the Indianapolis-Marion County Aaa issuer rating due to abatement risk of certain payments if the facilities cannot be occupied, the less-essential nature of Bankers Life Fieldhouse to municipal operations and the relatively narrow stream of various economically sensitive pledged revenue.

Lease payments made by the CIB to the Marion County Convention and Recreational Facilities Authority are subject to abatement if the facilities cannot be occupied but there is rental interruption insurance in place of offset that risks.

The CIB’s 2007 bonds are rated by Moody’s one notch higher at A1. Those bonds benefit from reserves not pledged to the new issue and the 2007 bonds are not structured as a lease and are not subject to abatement risk.

The rating also takes into account the availability of newly pledged revenue but they are sensitive to the pandemic’s impact.

“We consider the coronavirus pandemic a social consideration and a key driver of the current rating actions given the impact on CIB revenue,” Moody’s said.

“Pledged revenues have been materially pressured by the pandemic and are likely to continue to be affected to some extent over the next several years. However, the proposed structure reduces debt service costs materially for the next three years,” Moody’s said.

The credit benefits from a broad and diverse economic base with pre-COVID positive trends but is challenged by the sensitivity of pledged taxes to the economy and severe impact of the pandemic, Kroll said.

“The stable outlook reflects KBRA’s expectation that pledged revenue growth will resume and recognizes the use of capitalized interest through June 1, 2024, which provides credit support in the face of narrowed debt service coverage,” Kroll said.

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