THE BOND BUYER

Alabama highway authority comes to market with a $1.5 billion bond deal

By

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The Alabama Federal Aid Highway Finance Authority is in the market with one of its biggest deals ever — a $1.5 billion offering of taxable special obligation bonds.

BofA Securities as the lead book-running manager is pricing the $1.525 billion of Series 2021 taxable and tax-exempt special obligation revenue bonds.

On Wednesday, BofA priced the Series 2021B taxables at par to yield from 0.229% in 2022, or seven basis points under the comparable U.S. Treasury security, to 2.406% in 2034, or 88 basis points over the comparable UST and at par to yield 2.65% in 2037, 58 basis points over the comparable UST.

Alabama Gov. Kay Ivey speaks at the groundbreaking of a highway construction project. The state is refunding all of its Federal Aid Highway Finance Authority bonds in a $1.5 billion deal this week. ***Alabama Governor's Office/Hal Yeager***

Proceeds from the taxables will refund all of the authority’s outstanding debt and reimburse the Alabama Department of Transportation for various capital improvement projects. A small $20.9 million tax-exempt series 2021 will fund various capital projects.
The authority has about $1.269 billion of debt outstanding, consisting of fixed-rated grant anticipation revenue vehicles, or Garvees, and special obligation revenue bonds, according to an investor presentation.

Outstanding bonds to be refunded include $32.285 million of the Series 2012 bonds, $499.42 million of Series 2015, $236.395 million of Series 2016, $360.695 million of Series 2017A and $139.975 million of Series 2017B.

The bonds are rated Aa2 by Moody’s Investors Service and AAA by S&P Global Ratings. Both agencies assign a stable outlook to the credit.

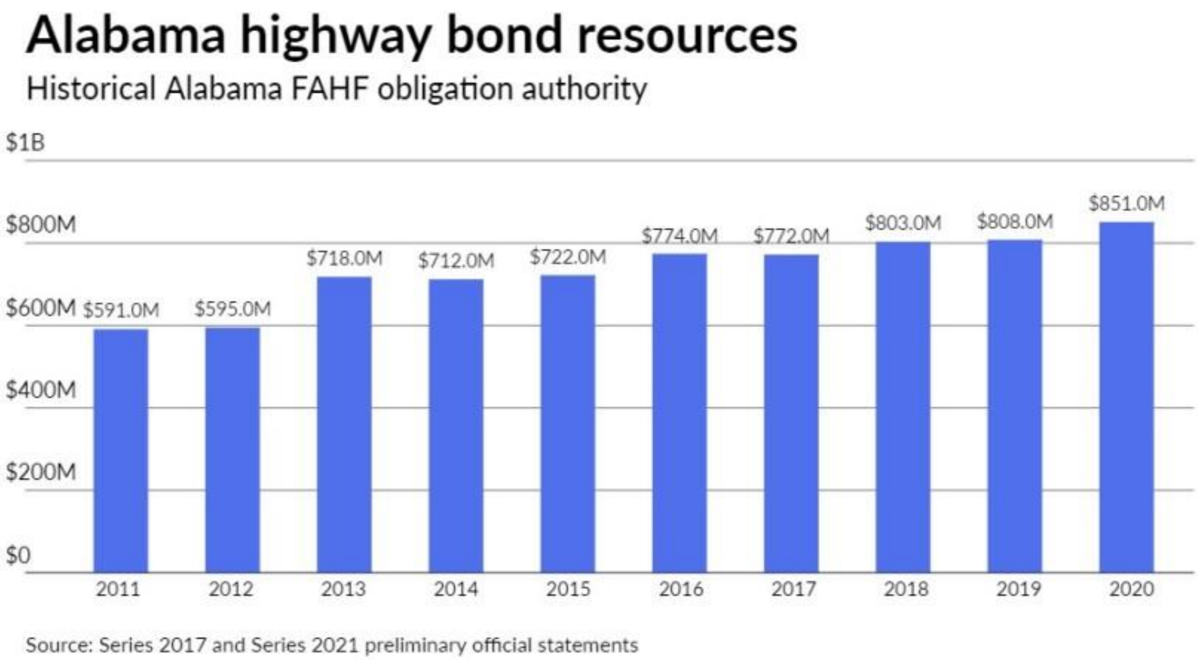
Moody’s said its Aa2 rating “incorporates very strong debt service coverage from two transportation revenue sources: the bulk of the state's gasoline tax collections and its share of Federal Highway Administration [FHWA] reimbursements. Together, these resources generate more than nine times maximum annual debt service.”

The authority was created in 1981 to issue bonds ahead of receiving federal grant money for construction projects on roads and bridges. It is a public corporation and instrumentality of the state. It began by first issuing bonds backed only by FHWA grants but in 2015 it started offering special obligation revenue bonds backed by the state's FHWA funds and a pledge of its gas tax receipts.

Obligation authority is apportioned to states by the federal government on a yearly basis. It is the top limit of what the federal government will pay to the state through reimbursements. In fiscal 2020, the available obligation authority available was $850.6 million and the state used all of it; total reimbursement received by the state was $815.0 million. Over the past five fiscal years, obligation authority averaged $801.6 million a year.

Moody’s said its rating was one notch lower than that of the authority's outstanding special obligation bonds, reflecting a change that eliminates the requirement that the first receipts of pledged revenue be set aside at the start of the state's fiscal year to cover the year's debt service. Now, the state treasurer will be responsible for assessing the sufficiency of funds from FHWA payments for debt service just three days prior to payment and, if necessary, require the state DOT to come up with additional funds.

“This change underscores the credit's high reliance on FHWA funds provided directly for debt service, and it effectively reduces the role likely to be played by state gasoline tax revenue,” Moody’s said. “Both state and federal sources are vulnerable to economic conditions as well as any technological changes that reduce motor fuel use.”



The growing production and use of electric vehicles could have an effect on gasoline tax revenues over a longer-term time period, according to John Hallacy, founder of John Hallacy Consulting LLC.

"With EV sales at only 3% of rolling stock albeit increasing, a recovering economy will propel fuel sales for some time," Hallacy said. "The tenor of the debt may be affected over time by the ramp up of EVs especially if it happens faster than anticipated."

Moody’s added that its stable outlook was consistent with the strong coverage of scheduled debt service even in the face of adverse economic conditions, such as the recession caused in 2020 by the coronavirus pandemic.

Principal and interest on the new bonds will be paid from a mix of a share of the state’s gasoline tax revenues, at 18 cents a gallon, and federal aid funds.

The state said that the COVID-19 pandemic saw gas tax collections decline, with total revenues falling 7% in fiscal 2020, according to an investor presentation. However, it noted that revenues have now rebounded and gas tax collections in

July exceed those of July 2019. So far in fiscal 2021, fuel tax collections of $219 million are on track with budget projections.

Since the pandemic began in 2020, there have been 44.31 million cases of the virus in the United States with 716,847 deaths reported as of Oct. 1, according to Statista. The number of SARS-CoV-2 Delta variant cases in the U.S. is 438,891 as of Oct. 1.

Alabama's total deaths per capita through the COVID-19 pandemic are the fourth-highest in the U.S., according to Statista. Over the last week, it is the third highest state in COVID-19 deaths per capita, according to the Centers for Disease Control.

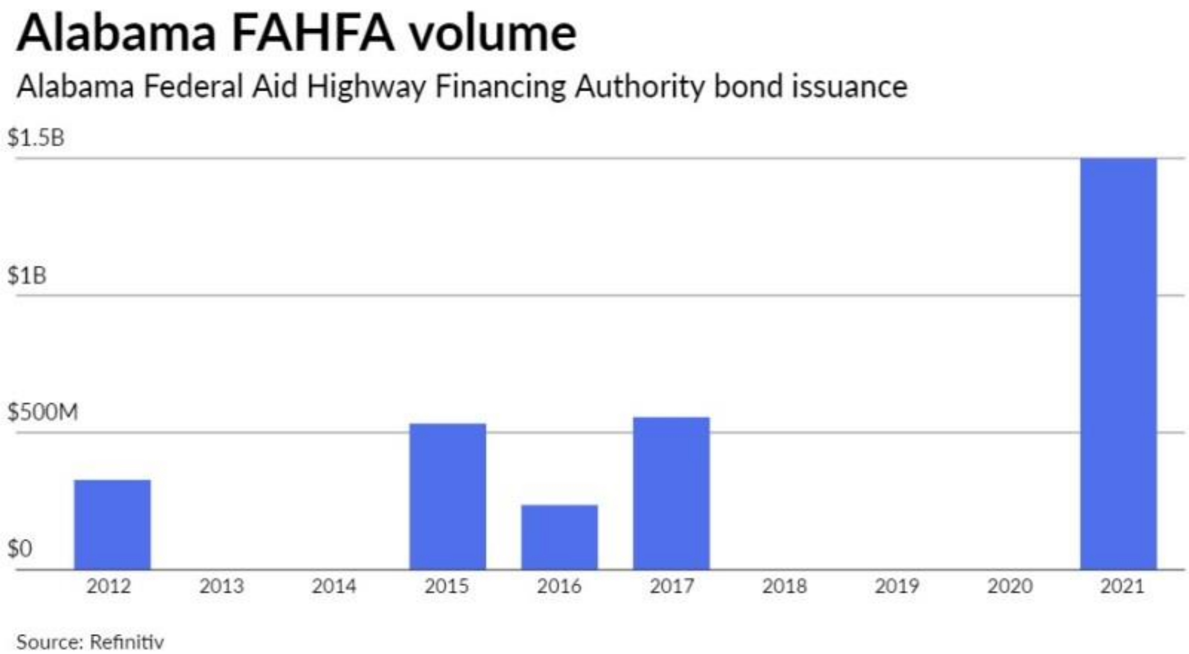
Co-managers on the deal are Goldman Sachs, The Frazer Lanier Co., Citigroup, Piper Sandler, Wells Fargo Corporate & Investment Banking, Academy Securities and Securities Capital Corp.

PFM Financial Advisors LLC of Huntsville is the financial advisor. Maynard, Cooper & Gale P.C. of Birmingham is the bond counsel and disclosure counsel. Hand Arendall Harrison Sale LLC of Mobile is underwriters counsel.

The deal is tentatively structured in two tranches. The $1.5 billion taxable Series 2021B is structured to mature from 2022 to 2037 while the $20.5 million of Series 2021A tax-exempt revenue bonds are due from 2033 to 2037.

The state is also looking overseas, at buyers in Europe and Asia. The preliminary official statement offers disclosures to investors in the U.K., Switzerland, Hong Kong, Japan, South Korea and Taiwan.

Alabama's GDP was $224.9 billion in 2020, ranking it 27th among the U.S. states, according to the US Bureau of Economic Analysis. The state is rated Aa1 by Moody’s, AA by S&P and AA-plus by Fitch Ratings.



October has been a month for big bond sales in the state.

In October of 2020, Wells Fargo priced the Alabama Public School and College Authority's $1.5 billion of Series 2020A tax-exempt and Series 2020B and 2020C taxable capital improvement and refunding social bonds. The deal was certified as social bonds by Kestrel Verifiers.

The state sold the bonds, rated Aa1 by Moody's, AA by S&P and AA-plus by Fitch, to take advantage of the very low interest rates at the time.

That deal, proposed by Gov. Kay Ivey, provided funds to finance capital projects for public education from kindergarten to colleges and universities and to refund some debt for savings. It was the largest issue for the school authority to date.

The $1.275 billion of tax-exempt school bonds were priced to yield from 0.26% with a 5% coupon in 2022 to 1.98% with a 4% coupon in 2040. The $58.81 million of Series 2020B taxable refunding bonds were priced at par to yield 0.253%, 10 basis points above the comparable Treasury security in 2021, and 0.353%, 20 basis points above Treasuries in 2022. The $147.335 million of Series 2020C taxable refunding bonds were priced at par to yield from 0.253%, 10 basis points above Treasuries in 2021, to 2.444%, 160 basis points above Treasuries in 2035.

Update: *The story was updated with tentative pricing on the taxables, then updated again with the final pricing wire.*

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