THE BOND BUYER

# Wisconsin agenda filled with state bond deals, local disclosure initiative

By

Yvette Shields

Published

February 09, 2021, 2:27 p.m. EST

Wisconsin will help ease the dearth of supply with a series of deals over the first quarter before turning its attention to a statewide summit on how to help local governments on disclosure practices.

Two state deals this week are the first to benefit from positive fiscal news of improved revenue estimates and the state's first general fund positive balance based on Generally Accepted Accounting Principles last year despite the COVID-19 pandemic's economic hits.

"It's been a hot municipal bond market and we are seeing tightening spreads," said David Erdman, Wisconsin's capital markets director.

The state Tuesday sold $33 million of master lease certificates of participation to cover equipment expenses in a deal senior managed by PNC Capital Markets LLC.

The state returns as soon as Wednesday with a $119 million taxable refunding of appropriation bonds first sold in 2003 and then refunded in 2012, said Capital Finance Director David Erdman. Barclays Capital has the books and Loop Capital Markets LLC is the co-senior manager.

New money and refunding general obligation, transportation, and environment deals are also in the works.

"It's been a hot municipal bond market and we are seeing tightening spreads," Erdman said. "We are taking little bites of the apple. We have been doing small ones that address the best of best" when it comes to potential savings. The appropriation refunding is expected to achieve double-digit percentage present value savings.

The state reports having captured $260 million of debt service savings on eight refunding transactions over the last two years.

Wisconsin has used taxable and forward delivery structures to achieve savings before call dates but with growing support for restoring the advance refundings that were eliminated in the 2017 tax package, the state has a “cargo ship full of bonds” that could benefit, he said.

The state expects to price a taxable advance refunding of general obligation bonds for about $300 million as soon as next week with BofA Securities in the lead spot.

In March, a roughly $150 million new money transportation revenue bond deal will follow, and the state is evaluating refunding candidates for that deal, with Morgan Stanley in the lead spot.

A new money GO sale is expected in late spring with a roughly $100 million environmental improvement revenue deal also in the works.

The upcoming slate of deals mark the state’s first use of Baker Tilly Municipal Advisors LLP which was added to the state’s advisory list after a recent competitive selection process. PFM Financial Advisors LLC and Public Resources Advisory Group are also on the list and advising on some of the deals.

The capital finance office is also working on plans to host over the next several months a disclosure summit with state-based advisors and bond counsel, although input from outside firms is also welcome, with the goal of coming up with ideas on how to better inform local governments of best practices.

Erdman promotes best practices on disclosure as a member of the Government Finance Officers Association debt committee. He is a longtime proponent of disclosure as director of the capital finance office since 2015 and during his years working alongside the former director, Frank Hoadley.

“I feel pretty strongly that municipal disclosure is improving but I feel like if there are going to be issues brought up they are more likely to be about smaller issuers,” Erdman said.

Smaller issuers that don’t frequently access the market may lack the advice or time to explore best practices or know where to look. The goal is to “take what the state does” and other major issuers and “inject that deeper across the state,” Erdman said. “I want the discussion to look at how to get local governments more aware of disclosure best practices and comfortable with them.”

The appropriation bonds and COPs will carry ratings of AA from Fitch Ratings and Aa2 from Moody’s Investors Service. Both affirmed the ratings and stable outlooks this week.

Kroll Bond Rating Agency also rates the COPs, assigning its AA rating and positive outlook. All three rate Wisconsin’s general obligation bonds one notch higher as the COPS and appropriation bonds require an annual appropriation from the state’s general fund.

“The positive outlook reflects the state’s continued fiscal discipline and the resulting improvement in its financial reserves,” Kroll said. “The outlook also reflects KBRA’s expectation the state will return to its positive economic trajectory after recovering from the disruptions caused by the pandemic, demonstrating greater resilience and recovery than much of the nation.”

**Revenues and expectations**

The flurry of deals comes as Gov. Tony Evers prepares to deliver next week a two-year budget for the fiscal biennium that begins July 1.

Evers has begun laying out some proposals such as plans to pursue a legalization of recreational marijuana to generate more than $165 million annually for rural and underserved community initiatives.

The state is heading into the biennium in better fiscal shape than it previously expected based on new revenue estimates released by the Legislative Fiscal Bureau late last month. The state’s comprehensive annual financial results for the last fiscal year that were published in late December also offered a fiscal milestone for the state in the form of a positive GAAP balance.

The state reported a GAAP deficit for three decades even as it balanced it books on a cash basis and structurally balanced its books under Evers and his predecessor, Scott Walker.

A building up of cash balances helped turn that tide and over the previous two fiscal years $1.25 billion was trimmed from the GAAP deficit resulting a positive $1.5 million balance.

“That’s been a weak link for the state,” said Richard Ciccarone, president of Merritt Research Services. “It may not be a big number but it’s really a breakthrough and a major accomplishment.”

The Legislative Fiscal Bureau in late January projected a gross general fund ending balance June 30 of $1.9 billion that will result in a transfer of $231.8 million to the state's budget stabilization fund based on statutory requirements.

The projected general fund balance is about $630 million higher than projected by the state in November.

Tax collections were revised upward by $437 million based on an updated IHS Markit forecast while appropriations are down by about $190 million. Additional federal aid from the higher Medicaid reimbursement rate enacted last year and now expected to continue through this year also helped.

After the deposit, the state's rainy day fund will rise to about $994 million — 5.5% of revenues — from $762 million where it stood at the close of fiscal 2020.

Wisconsin closed out the last fiscal year with 1.2% increase in general fund tax collections. The LFB projects a 1% increase in tax collection to $18.3 billion for the next fiscal year and then a 4.6% increase in fiscal 2023, the second year of the upcoming biennium.

The new estimates put revenues up by about $1.16 billion through the remainder of this year and the next biennium and will guide the budget process.

Evers, a Democrat, will likely face opposition from the legislature's Republican majorities on any big spending initiatives. The two have butted heads over restrictions on gatherings and mask orders Evers has sought to limit the spread of the coronavirus.

Republicans have prevailed on some legal challenges to restrictions and believe it's due to their efforts on those measures and to hold Evers' spending in check that's behind the stronger fiscal picture.

"Thanks to nearly a decade of Republican reforms and a responsible budget passed by legislative Republicans, we're in a much better spot than anticipated a few months ago," Rep. Mark Born, R-Beaver Dam, said in a statement with Sen. Howard Marklein, R-Spring Green. They are co-chairs of the legislative's Joint Finance Committee.

Evers has countered that it's sound structural management with targeted aid that's helped manage the pandemic. Early in the pandemic, Evers ordered agencies to cut spending by 5% and froze hiring and travel and merit pay raises. He also then made $300 million in cuts.

**Yvette Shields**